House of Commons

Work and Pensions Committee

Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings

Fifth Report of Session 2021–22

Report, together with formal minutes relating to the report

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Work and Pensions Committee

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Summary

In 2015, many people aged 55 and over were given more choice about how they access their pensions, which led to wholesale changes in the industry and the way people plan to use their pensions. The pension freedoms gave people the freedom to choose what to do with their money. These new freedoms also brought new risks. On balance, these changes have been a success and we do not want to see them rolled back. However, many savers need more support than they currently receive in order to make good decisions about how they access their pension savings. We recommend that the Government and regulators should play a more active role in supporting savers than they did when the pension freedoms were first introduced.

The Minister for Pensions told us that the Department for Work and Pensions is trying to make pensions simpler. We support this principle. Simplicity alone, however, is not enough to improve outcomes for savers. The Government and regulators will either need to increase saver engagement—encouraging and enabling savers to make their own decisions—or take a more interventionist approach with passive savers to ensure that they do not default to a decision against their best interest.

Options when accessing pensions

People can usually take up to 25% of their pension as a tax-free lump sum. This is one of the most well-known UK pension policies and leads to many people who access their pensions for the first time taking poor decisions about the remaining 75%. We heard persuasive arguments both for and against decoupling the 25% of a pension pot which is tax free from the rest of the pot. The best way to assess these arguments is through further research and testing. We recommend that regulators should carry out a scoping exercise to establish the research and testing which could be undertaken on decoupling the 25% of a pension pot which is tax free from the rest of the pot and present their findings to our Committee.

We were told that most savers want a reliable income in retirement. Annuities provide this for savers with defined contribution pensions, but have dramatically fallen in use since the introduction of pension freedoms. The transition from defined benefit schemes to defined contribution schemes means that fewer people will have occupational pensions which provide a guaranteed income in future and therefore we expect there to continue to be a demand for annuities or annuity-like products.

Many more people than currently do would, however, benefit from making greater use of the pension freedoms by choosing a mix of annuities, lump sums and drawdown rather than a single product. For example, a person may wish to withdraw a lump sum when they first access their pension, later choose to use drawdown flexibly before finally choosing an annuity in later life. However, these options will be difficult for savers to choose themselves without thorough guidance and most savers would likely need paid-for advice, which gives a personalised recommendation, to choose a suitable mix of products.

The Pension Schemes Act 2021 enabled collective defined contribution (CDC) schemes, which provide retirement incomes from a collective fund. The income from the fund

received by members varies depending on how the fund performs. There is demand for the further development of CDC schemes in future and it is therefore right that the Government continues to support this. We welcome the Government's intention to start consultations on master trust and multi-employer CDC schemes later this year. **We recommend that the Government publishes a framework for assessing the success early CDC schemes.**

Supporting decision making at the point of access

Measures are in place for contract-based schemes to offer investment pathways, but equivalent measures are some way off for trust-based schemes and their final form may differ. This is not an isolated case of different measures being in place for contract-based and trust-based schemes without a clear rationale. We are disappointed that yet again the two pension regulators dealing with savers in near identical positions have failed to coordinate their work resulting in unnecessary risk for members of trust-based schemes and the pension landscape being more confusing than necessary. **We recommend that all consultations covering pension regulation should be run jointly by the Pensions Regulator and the Financial Conduct Authority unless there is a clear and published reason for a different approach.**

Pension Wise is a well-regarded but under-utilised service. The Pension Freedoms will be seen as a failure if savers make poor decisions without receiving the guidance they were promised when the freedoms were introduced. The Minister for Pensions and Financial Inclusion's previous agreement that having a Pension Wise appointment should be "the norm" was welcome, but he has since distanced himself from this view. Neither the Minister nor regulators would tell us what they thought the usage levels of Pension Wise should be. **We recommend that the Government sets a goal for the Money and Pensions Service for the combined use of Pension Wise and paid-for advice when accessing pension pots for the first time. This goal should be at least 60 per cent and expressed in terms of individuals rather than pots. It could include an exemption for smaller levels of saving.**

The "stronger nudges" towards guidance being proposed by the Department for Work and Pensions and the Financial Conduct Authority will not be enough to make receiving pensions guidance the norm. The Money and Pensions Service told us that it would support a trial of automatic Pension Wise appointments and we can see no clear barrier to doing this. The Minister for Pensions and Financial Inclusion has expressed reservations about introducing automatic appointments—but those could be tested by a trial. **We recommend that automatic Pension Wise appointments are trialled. The Government should initiate two trials: one with an appointment when a person accesses their pension for the first time and another at the age of 50, before they can access their pension savings.**

Advice is a personalised recommendation that can only be provided by a regulated firm at a cost. Few people seem to be willing to pay for financial advice for the decisions they make about their pension savings—even though doing so could significantly improve their financial situation. More people would benefit from regulated advice before accessing their pensions than currently use it. **We recommend that the Government should report annually on progress and plans to increase the uptake of pensions advice.**

The Pension Advice Allowance allows £500 to be withdrawn from a pension up to three times in different tax years for advice. Either because of a lack of awareness or lack of demand the policy is not working. Its design has made it unusable by most savers. We believe that the broad aim of the policy is correct, but it has been poorly executed. We recommend a full review and overhaul of the Pensions Advice Allowance.

The line between advice and guidance is a continuing issue of debate. There is demand for both enhanced guidance and limited advice, but there is reluctance from the industry to operate too close to the advice/guidance boundary and resistance to such services being offered by the Money and Pensions Service, both because of the likely additional cost and regulatory requirements. We recommend that the Financial Conduct Authority uses the definitions below of enhanced guidance and limited advice:

- Enhanced guidance: guidance on the options available which is tailored to an individual dependent on the information they provide, without a recommendation. This is not a regulated activity.

- Limited advice: a recommendation made to an individual based on limited or partial information about them.

The Financial Conduct Authority should provide examples to the industry to encourage the wider offering of enhanced guidance and limited advice to the fullest extent allowed by the existing law.

We recommend that the Money and Pensions Service offers enhanced guidance, under our proposed definition, through its pensions services. We also recommend that the Money and Pensions Service establishes an industry group to develop best practice proposals and templates for offering enhanced pensions guidance.

Most guidance is currently delivered by individuals, which is costly, or through written communication, which is unengaging. In future we envisage a significant proportion of guidance or triage services will be delivered through digital tools. This should be a key consideration in the implementation of the recommendations we have made to regulators and the Money and Pensions Service.

Pensions dashboards

Pensions dashboards will let people see all of their pensions on a digital platform. This has the potential to be the most influential policy in helping people take good decisions when they first access their pension pots. To be successful, pension dashboards will need correct and up to date data from every pension scheme. This is a huge undertaking. It is vital that the pension dashboards programme continues to be properly resourced to get the implementation of dashboards right. Too often pension policies have been undermined by bad data.

When pension dashboards launch it will not be possible to undertake any transactions through them. We understand why some people are calling for transactions to be facilitated through pension dashboards. However, with dashboards a long way from reality and a need to build trust in the system, we recommend that no consideration is given to allowing transactions through dashboards until they are well established.

Supporting decision-making before accessing pension savings

The simpler annual pension statement introduced by the Government will require schemes to show information to members in a consistent way across the industry. We welcome the simpler annual pension statement and believe it will be particularly beneficial to people with many pension pots.

The Government has also stated its intention to introduce a pension statement season, which would be a short period each year when schemes were required to send savers annual pension statements. We are not convinced that the gains from a statement season will justify the complexity of introducing it. In our view, the measure is at best a stopgap until pension dashboards are available. Given the likely cost and disruption to the industry, we recommend that the Government be prepared to adapt or drop its proposal for a pension statement season if the benefits cannot be robustly demonstrated.

The midlife MOT is free support for people in their 40s, 50s and 60s to make plans about work, wellbeing and money. We welcome the principle of a midlife MOT, but believe that the policy is not yet providing the support envisaged for most savers. For the "my money" part of the midlife MOT, we recommend that the Department for Work and Pensions, supported by the Money and Pensions Service, undertakes research to improve the proposal.

Wider government policy

We support the Government's intention to make pensions simpler. Recent policy changes to the normal minimum pension age have highlighted the difficulties of achieving this and we are disappointed that these changes have made making decisions about accessing pensions even more difficult. Savers take a working lifetime to build up pension savings, through many changes of policy and government. We urge the Government to do everything in its power to ensure that future changes do not bake additional complexity into the system for decades to come. Where additional complexity is inescapable, we recommend that any Government consults early, thoroughly and aims to achieve cross-party consensus.

The Government, regulators and the Money and Pensions Service are introducing multiple policy interventions to support the pension freedoms. Six years on there remains no framework against which to evaluate the success of the freedoms or make judgements about the need for—or effectiveness of—support interventions. Our predecessor Committees have asked three times for the Government to improve its monitoring and reporting on the progress of the pension freedoms. We recommend that the Department for Work and Pensions and the Treasury jointly produce an annual assessment evaluating these measures holistically. We would expect several of the recommendations we have made in this report to appear in that publication.

1 Introduction

The role of Government and regulators

1. In 2015, many people aged 55 and over were given more choice about how they access their pensions, which led to wholesale changes in the industry and the way people plan to use their pensions. Five years on from these changes, known as the pension freedoms, we started a major piece of work looking at how pension savers are protected from the risks that came with those new freedoms. This is the second of three planned reports and focusses on the decisions people take when they access their pension savings. Our previous report looked at protecting pension savers from scams and our final report will look at saving for later life.[1]

2. People with a defined contribution (DC) pension build up a pension pot, the value of which depends on the amount of money contributed by the person and their employer and on the performance of investments. Before April 2015, most people with DC pensions were required to buy an annuity—a form of guaranteed income. The pension freedoms gave DC savers more choice about how they access their pension savings. Broadly, the options available are:

a) Annuity: a regular income for life or a set period.

b) Drawdown: Pension drawdown can provide a regular income by reinvesting it in funds designed for this purpose. The income is not guaranteed and varies depending on the fund's performance.

c) Partial and whole cash withdrawals: Cash withdrawals can be taken straight from a DC pension pot after age 55 with the remainder left untouched. Normally the first 25% of a fund withdrawn is tax free and the remainder is treated as taxable income.

It is clear that people are making use of the pension freedoms; in 2017, the Financial Conduct Authority (FCA) said that "consumers have welcomed the pension freedoms".[2] The FCA reported that in 2019/20, for the pension plans it regulates, 10% of those accessed were used to buy an annuity,[3] compared to over 90% before the pension freedoms.[4] The master trust Smart Pension told us that while the freedoms were "broadly welcomed" because the "previous system was broken", the "implementation was rushed for political expediency".[5]

3. Many more people are now saving into DC pensions because of auto-enrolment. Auto-enrolment requires employers to enrol eligible employees onto a workplace pension scheme. Unless those employees opt-out, they will build up a private pension through their contributions and those of their employer. Auto-enrolment duties were phased-in between 2012 and 2018 and led to an increase in the membership of DC occupational pensions, from 2.1 million in 2011 to 21 million in 2019. The Pensions Management

1 Work and Pensions Committee, Protecting pension savers—five years on from the pension freedoms: Pension scams, Fifth Report of Session 2019–21, 24 March 2021
2 Ibid.
3 Financial Conduct Authority, Retirement income market data 2019/20, 29 September 2020
4 Financial Conduct Authority, Retirement Outcomes Review 2017, 15 September 2017
5 Smart Pension (APS0048)

Institute, a pensions industry professional body, told us that it had been estimated that millennials will have an average of twelve different jobs over their working lives.[6] Many people will have far more and because of auto-enrolment will build up separate—usually DC—pension pots with each job.

4. Unlike DC schemes, defined benefit (DB) pensions offer a regular pension income, guaranteed by a sponsor which is usually the employer. The amount paid by a DB pension is linked to salary and length of service. Since 2015 people have been transferring out of their DB schemes to make use of the pension freedoms. People who have a DB pension with a value of over £30,000 have to take paid-for advice before transferring, whereas there is no equivalent requirement for DC pensions. Because of the guarantee of a regular income, DB pensions have historically been seen as more secure than DC pensions. There has, however, been a shift away from DB to DC schemes which looks likely to continue for the foreseeable future. The Creative Benefits Group, which provides a master trust, said that:

> Many are witnessing what could be described as today's 'golden age' of pensioners (but not all of today's pensioners by any means) where their retired parents and others appear to be extremely comfortable in their retirement. However, the concept that working people today are likely to be as comfortable in their retirement is an illusion.[7]

5. When the pension freedoms were introduced, the Government recognised that people would need support to make use of the new freedoms. The 2014 Budget said "that under the new system it will be important that people are equipped to make decisions that best suit their personal circumstances".[8] It presented a "guidance guarantee" as a key pillar of the reforms, which would mean everyone with a DC pension was entitled to free guidance about the options available to them. Pensions Wise was created to provide this guarantee and is now part of the Money and Pensions Service. The Economic Secretary to the Treasury, John Glen MP, told us:

> When the pension freedoms came in in 2015 the Government made a conscious decision to give people the freedom to choose what to do with their money. That was fundamental to it but at the same time we recognised that people worked hard to save money for their future retirement and it is incumbent upon Government to put in place an appropriate environment for advice and guidance.[9]

Aviva, a provider of insurance and asset management, told us that whilst "much has been done to improve the support available […] it remains the case that people are not receiving the support they need and this is leading to sub-optimal retirement decisions."[10]

6. Both the pension freedoms and auto-enrolment are in relative infancy as policies when compared to the long time horizons of pensions—into which a person might start saving into from their first job and receive payment from for all of their later life. The Personal Investment Management and Financial Advice Association (PIMFA), a trade association,

6 Pensions Management Institute (APS0030)
7 Creative Benefits Group (APS0026)
8 HM Treasury, Budget 2014, para 1.160
9 Q178
10 Aviva (APS0010)

told us while both the pension freedoms and auto-enrolment "are very welcome and popular policies […] the underlying philosophies associated to them are diametrically opposed."[11] Auto-enrolment relies on the inertia of savers whereas the pension freedoms assume that the same savers are in a position to take an active and potentially complex decision about how they access their savings. The Financial Services Consumer Panel, an independent statutory body set up to represent consumers, told us that there "is a disconnect between people's experiences with auto enrolment, which requires limited engagement, and the complex choices they are then required to take from age 55" when they can make use of the pension freedoms.[12]

7. **The pension freedoms gave people the freedom to choose what to do with their money. On balance these changes have been a success and we do not want to see them rolled back. However, many savers need more support than they currently receive in order to make good decisions about how they access their pension savings.**

8. **Making pensions decisions is complicated. The continued movement from DB to DC, together with auto-enrolment and the increased number of jobs that one person will have over a working lifetime, mean that without intervention decision-making will become more complicated still. The Government and regulators have a role to play in ensuring that savers have the information and support they need to make good decisions about what they do with their pension savings.** ***We recommend that the Government and regulators should play a more active role than they did when the pension freedoms were first introduced.***

Direction of travel

9. Pensions are often perceived as complex and many people are uncertain about the options available to them, what savings they might have in retirement and how long they might need these savings to last. The Institute for Fiscal Studies, an independent microeconomic research institute, told us that:

> Uncertainty about the length of remaining life can make it difficult to plan how to draw down retirement assets and not run out of money. For example, a 65-year-old male in 2021 can expect to live an additional 20 years of life, but there is considerable uncertainty around this: one in ten are not expected to survive more than another seven years, while one in ten can expect to live for another 31.[13]

Not only are people uncertain about what their later life might look like, many are unaware of the gaps in their own knowledge. Standard Life Aberdeen, an investment company, told us that "66% of those who will retire in 2021 may have insufficient savings to sustain their planned retirement income, while 37% worry about this fact, which highlights a fundamental lack of understanding of what retirement will cost."[14]

11 Personal Investment Management and Financial Advice Association (PIMFA) (APS0060)

12 Financial Services Consumer Panel (APS0031)

13 Institute for Fiscal Studies (APS0022)

14 Standard Life Aberdeen (APS0019)

10. The pension freedoms introduced additional complexity for savers who needed to make a choice from a much greater range of options about how they accessed their pension savings. National Employment Savings Trust (Nest), a master trust set up by the government to support small employers to meet their auto-enrolment duties, told us that:

> The pension freedoms have introduced a new set of set of economic risks for savers. These include longevity risk—the risk of running out of money altogether, or not living as well as they might due to fear of running out of money. Also, ongoing exposure into retirement to investment risks and the need for ongoing management of those investments. Due to cognitive decline as we age, members are also likely to become less able to make decisions about their retirement savings over time.[15]

To support the choice, a guidance guarantee was presented as a key pillar of the reforms: everyone with a defined contribution pension is entitled to free impartial guidance from Pension Wise when they come to access their pension. Pension Wise is not the only source of information; pension schemes and employers are often seen as an important source of information for many savers. Aviva told us that:

> There is clearly a balance to be struck between providing people with enough information to enable them to make informed choices and not over-burdening them with overly complex information that may actually deter them from engaging.[16]

11. The Department for Work and Pensions told us that it does not believe that schemes are communicating as effectively and clearly as they could with their members and outlined measures it was taking to address this.[17] These include:

a) Simpler annual benefit statements

b) Pensions dashboards

c) Stronger nudge

d) Plans to consult on additional risk warnings and single page summaries at age 50.

The Minister for Pensions and Financial Inclusion, Guy Opperman MP, told us:

> I can sum [our ethos] up in one key word, which is trying to make pensions simpler. That is why we are trying to do simpler statements, which are progressing and heading forward for DC but my long-term hope is to try to simplify DB statements. That is why we are doing a dashboard; we take the paper version and make it much easier to understand.[18]

12. **The Minister for Pensions told us that the Department for Work and Pensions is trying to make pensions simpler. We support this principle. But simplicity alone is not enough to improve outcomes for savers. The Government and regulators will either**

15 National Employment Saving Trust (APS0040)
16 Aviva (APS0010)
17 Department for Work and Pensions (APS0035)
18 Q178

need to increase saver engagement—encouraging and enabling savers to make their own decisions—or take a more interventionist approach with passive savers to ensure that they do not default to a decision against their best interest.

The cost of care

13. The potential cost of care in later life may significantly impact people's financial position. During our evidence taking for this inquiry there have been several major announcements from the Government about adult social care. In September 2021 the Prime Minister announced plans to increase funding for health and social care and in November 2021 the Government set out details on its proposed reforms.

14. A number of witnesses told us that the cost of care should not be a major factor that people consider when they first access their pension pots. AJ Bell, a provider of online investment platforms and stockbroker services, told us that "Pensions are not the right, or most appropriate, solution when looking to specifically address a shortage in social care funding."[19] The Association of Consulting Actuaries said that some form of social care cost insurance could potentially address a situation where individuals need to pick up a greater share of social care costs.[20] Laura Myers, Partner and Head of DC at Lane, Clark & Peacock, shared this view and told us that pension savers "do not have the spare tens of thousands of pounds they would need if they potentially did need social care".[21] Matthew Arends, Head of UK Retirement Policy at Aon, agreed that insurance is a better way of meeting care costs as "not everyone will need long-term care because they will not live to need it."[22]

15. Most people accessing their pension savings for the first time are not in a position to consider their long-term care needs as part of that decision. We have therefore not made recommendations on this. Other select committees, including the Treasury Committee and Health and Social Care Committee, have looked in more detail at the Government's proposals for meeting the cost of care in later life.

19 AJ Bell (APS0050)
20 Association of Consulting Actuaries (APS0029)
21 Q40
22 Ibid.

2 Options when accessing pensions

Tax free access

16. People can usually take up to 25% of their pension as a tax-free lump sum. Income tax is paid on the remaining 75%. This is one of the most well-known UK pension policies and we were told that many people accessing their pensions for the first time are solely focussed on accessing the 25% which is tax free. We heard from some witnesses that "decoupling" the 25% of a pension which is tax-free from the rest of the pot would prevent people defaulting into decisions against their best interest. Lane, Clark and Peacock, a consulting actuaries firm, told us that:

> […] the evidence is that many people access their pension pot with the goal of accessing tax free cash, only to make poor use of their remaining savings, either by cashing out entirely (and depositing the balance in a cash account) or by moving the rest into a higher cost or worse-performing investment.[23]

It identified the risk that people who withdraw all of their funds leave unspent balances in accounts with "ultra low rates of return" and proposed:

> […] 'decoupling' accessing tax free cash from accessing the rest of a pension pot, making it easier to leave the rest 'where it is', being invested in a low cost and well-governed environment for continued growth.[24]

Lane, Clark and Peacock noted that this approach was "in line with an earlier suggestion from the FCA".[25] In its 2018 retirement outcomes review the FCA said that the Government should consider the merits of decoupling tax-free cash from other pensions decisions:

> We would encourage the Government to consider the merits of 'decoupling' tax-free cash from other pension decisions. Currently, some consumers who want to take a tax-free lump sum need to transfer out of their accumulation product and buy a new product with a drawdown feature. Many consumers focus solely on taking their tax-free cash at this time and do not engage with the decision of what to do with the rest of their pot. Separating the decision to take the tax-free cash from the need to move into drawdown will let consumers put off deciding what to do with the rest of their pot, until they are ready to focus on it. However, this would require major changes to the pension tax regime and we recognise that there are detailed policy and practical issues which the Government would need to consider.[26]

Laura Myers, Partner and Head of DC at Lane, Clark and Peacock, said that for many people "the only thing they understand about pensions is their 25% tax-free cash. They are very passionate about this point and very much want to take it forward."[27] AJ Bell similarly told us that "The main focus of most people once they have made contact with their provider about initial access is on obtaining their tax-free cash as quickly as possible."[28]

23 Lane, Clark & Peacock (LCP) (APS0027)
24 Ibid.
25 Ibid.
26 Financial Conduct Authority, Retirement Outcomes Review: Final Report, June 2018, p9
27 Q34
28 AJ Bell (APS0050)

Joe Dabrowski, Deputy Director Policy at the trade association the Pensions and Lifetime Savings Association told us that this means that "people tend to concentrate on making short-term decisions" and ignore the remainder of their pension.[29] Renny Biggins, Head of Retirement at The Investing and Saving Alliance, told us that as well as the tax-free cash most people are considering taking all of their pension as cash and that they are "in drawdown by default" because it "is just the route that they had to take to access that tax-free cash."[30]

17. We also heard that decoupling the 25% of a pension which is tax-free may have unintended consequences, such as encouraging people to access more of their pension than they need because they believe it is normal to do so. Matthew Arends, Head of UK Retirement Policy at Aon, told us that, while he understood the case for decoupling cash sum from pensions, he had concerns that "it might encourage members to believe it is right to take a quarter of their retirement savings as cash, or indeed that a quarter is the only percentage they could take".[31] Rachel Vahey, Senior Technical Consultant at AJ Bell, had similar concerns, and told us that "We do not want to be necessarily encouraging people to dip in and take all their cash, so there is an element of how it would work with partial crystallisation."[32] Responding to these concerns, Lane, Clark and Peacock told us that:

> We are trying to mend a system where large numbers of people *already* take their money well before state pension age and take far more than they need to because this is the easiest thing to do or because they don't trust pensions. If a change to the rules resulted in *some* people taking 25% earlier than they would otherwise do, this would not be ideal, but this would have to be weighed against the much greater good of having far more people *only* taking 25% rather than 100%, and dumping the balance in a cash ISA for years.[33]

18. Regulators and the Government recognise the concerns that the current approach leads to people focusing on the 25% of their pension which is tax-free and neglecting the rest. However, they focussed on investment pathways—ready-made drawdown options introduced for contract-based schemes in 2021—rather than decoupling as a solution. Sarah Pritchard, Executive Director–Markets at the FCA, acknowledged that the FCA believes that people are "not making active decisions about what they do with the remaining 75% of their pension pots" but also said that "I don't think it is clear whether decoupling would support consumers taking a more active decision about the 75%."[34] She explained that the need to ensure that consumers had better information had prompted the introduction of investment pathways. The Economic Secretary to the Treasury told us that the Government thinks that it would be complicated to differentiate the 25% that is tax-free from the rest of the pot. He also said that "given the size of the pots" the Government does not see this as a significant area of concern, because nine-tenths of people were taking out less than £30,000.[35]

29 Q20
30 Q3
31 Q34
32 Ibid.
33 Lane, Clark and Peacock (APS0065)
34 Q81
35 Q178

19. **People can usually take up to 25% of their pension as a tax-free lump sum. This is one of the most well-known UK pension policies and leads to many people who access their pensions for the first time taking poor decisions about the remaining 75%. We heard persuasive arguments both for and against decoupling the 25% of a pension pot which is tax free from the rest of the pot. The best way to assess these arguments is through further research and testing.** ***We recommend that regulators should carry out a scoping exercise to establish the research and testing which could be undertaken on decoupling the 25% of a pension pot which is tax free from the rest of the pot and present their findings to our Committee.***

Annuities, drawdown and lump sums

20. The pension freedoms meant that, from 6 April 2015, people aged 55 and over would be able to make withdrawals from their DC pension pot "how they want, subject to their marginal rate of income tax in that year."[36] Broadly people can use their pension pots for annuities, drawdown, cash withdrawals, or withdraw their whole pot as cash. People can choose one or a combination of these options and they are not required to remain with one pension provider. People in DB schemes will receive a regular pension income with the option of a tax free lump sum, guaranteed by a sponsor. Unless they transfer out of their scheme, members of DB schemes are not usually expected to decide how they access their pension.[37]

21. The use of annuities has dropped significantly since the introduction of the pension freedoms. Matthew Arends, Head of UK Retirement Policy at Aon, said that according to Aon's research "60% of individuals want an income for life in retirement, yet we know that something like 20% of people buy annuities."[38] David Fairs, Executive Director at the Pensions Regulator, told us that "people have tended to shun annuities because they think they are expensive and they feel a loss of control, but quite often in surveys you read that what people want is predictable income."[39] Yvonne Braun, Director of Policy, Long Term Savings & Protection at the Association of British Insurers, told us that annuities have "quite a bad name" but if you ask people what they want financially for retirement they "quite like the idea of guaranteed lifetime income".[40]

22. The introduction of the pension freedoms coincided with historically low interest rates. The lower interest rates are the more expensive annuities become. Paul McBride, representing the Society of Pension Professionals, told us that if interest rates increase there would probably be a reversal in the trend of falling annuity purchases.[41] Laurie Edmans, Commissioner at the Financial Inclusion Commission, told us that people who rely primarily on annuities have "no scope for weathering ups and downs". He told us that a £25,000 DC pot is worth about 10% of the basic state pension and therefore if a person retained the pot rather than purchasing an annuity and that pot halved in value they would still see "less than a 5% drop in their overall position".[42]

36 HM Treasury, Budget 2014: greater choice in pensions explained, 20 March 2014
37 They may face decisions about when to access their pension and some schemes offer a lump sum alongside the regular income.
38 Q39
39 Q83
40 Q21
41 Ibid.
42 Q4

23. Many people accessing their DC pensions using the pension freedoms today will also have a DB pension which provides a guaranteed income. David Fairs, Executive Director at the Pensions Regulator, told us that "it would be fairly typical for somebody coming up to retirement today that maybe half their retirement wealth is in defined benefit pensions and half is in defined contribution."[43] It might be expected then that, as the proportion of people with defined benefit pensions declines, demand for annuities increases. St James's Place told us:

> We think that in the future there may be a growing need for a lifelong income (ie annuities). This will partly come from an increasing proportion of retirees not having any Defined Benefits (DB) arrangements to provide long term security (many current retirees have at least some DB benefits) and partly from current retirees for whom the need for a lifelong income may not be pressing at retirement age but, by older ages, running out of money may start to feel more real and security will become an increasing priority.[44]

24. The huge uptake of drawdown and other options indicates that the pension freedoms have been welcomed by savers. Since their introduction some 1.7 million people have withdrawn over £45 billion flexibly from their pensions.[45] The former Pensions Minister Baroness Altmann told us that "clearly it has been very popular"—partly because in the past people were "locking into annuities when they have been far too young."[46] The Institute for Fiscal Studies told us that the pension freedoms made it possible for people to spend their pension pots in a "front loaded" way. The Institute for Fiscal Studies' analysis showed that average household spending per person tends to decline with age and it suggested that the reason for this "could be if the enjoyment people derive from spending money declines as health declines—for example, if declining health precludes a person from engaging in activities that they previously spent money doing."[47]

25. There are concerns about how drawdown is being used, particularly where savers are not fully aware of the implications of their decisions. Ferret Information Systems, a provider of advice, assessment systems and training in benefits law and practice, provided us with detailed analysis of the complex choices faced by low-income savers and the significant "penalty" they could incur if they make an "unwise choice".[48] Lane, Clark & Peacock gave us an illustrative example of the impact that using pension freedoms might have on someone receiving working age benefits:

> Universal Credit has a capital limit of £16,000. Anyone with capital above this limit is disqualified from UC entirely. This means someone on universal credit who, for example, took a £20,000 pot in full (including some tax free cash) could end up with £17,000 net and immediately lose all their benefits.[49]

43 Q80
44 St. James's Place (APS0013)
45 HM Revenue & Customs, Official statistics overview: Flexible payments from pensions, 30 April 2021
46 Q141
47 Institute for Fiscal Studies (APS0022)
48 Ferret Information Systems Ltd (APS0017)
49 Lane, Clark and Peacock (APS0065)

There may also be tax implications. The Association of British Insurers told us:

> Many people overpay tax in drawdown, because withdrawals are charged tax at an emergency rate, on the assumption that that amount will be withdrawn monthly. Being charged an inaccurate tax rate is confusing and disengaging, as well as being disproportionate and inefficient. HMRC has now repaid £692m to Q1 2021 in overpaid tax, with up to 17,000 individual tax repayment claim forms processed in a quarter.[50]

The Transparency Taskforce, a social enterprise, also warned us that the increased use of Lasting Powers of Attorney for Financial Decisions is an additional risk to the pension freedoms. It explained that:

> Under an annuity or capped drawdown product, it was possible for the pension income payments to be stolen in isolation or over a period of time. However, under flexible drawdown, the whole pot can be emptied in a single transaction, resulting in the potential loss of the entire pension fund.[51]

Hybrid products and blended solutions

26. People are not required to use their pension pot for only one retirement product. People can combine options and we were told that it was often in people's interest to do so. Scottish Widows, a life insurance and pensions company, told us these "are not binary choices and many customers will want and benefit from both certainty and flexibility".[52] Products such as annuities and drawdown can be combined into a single hybrid product or they can be purchased separately in amounts suitable for the saver. The Society of Pension Professionals, a representative body for providers of pensions advice and services, told us that combinations of products should "ideally […] be facilitated through a single product".[53] The pension freedoms removed restrictions on hybrid products, but they have not become widely used. Tess Page, Chair of DC Committee at the Association of Consulting Actuaries, told us:

> One of the disappointments for me post freedom of choice has been the lack of innovation or emergence of hybrid products. I have had the conversation multiple times with trustee boards or employers of using a drawdown vehicle for a period of time and that turning into an annuity later on, on the basis that lots of older people do not want to manage their personal drawdown pot into their 80s and 90s.[54]

Standard Life Aberdeen told us hybrid products are "unrealistic in the current economic environment and will not deliver value for money" and suggested that we instead focus on enabling "customers to best understand their options including combining products to fit their retirement plans."[55] Peter Glancy, Head of Pensions Policy at Scottish Widows, told us that there is a challenge because "Everybody's retirement journey is different"; he argued

50 Association of British Insurers (APS0043)
51 Transparency Taskforce (APS0025)
52 Scottish Widows (APS0037)
53 The Society of Pension Professionals (APS0014)
54 Q21
55 Standard Life Aberdeen (APS0019)

that there might need to be a hybrid product "for each person in the country."[56] Chris Brooks, Head of Policy at Age UK, told us that it was unclear whether there is demand for hybrid products and those introduced "were withdrawn because they did not have the take-up."[57] Renny Biggins, Head of Retirement at The Investing and Saving Alliance, explained that "the hybrid model achieves what is already out there with drawdown and annuity."[58]

27. It would be difficult for most savers to combine products on their own without adequate support, most likely through professional paid-for financial advice. The Investing and Saving Alliance told us that "a consumer will not generally possess the knowledge or awareness to understand the range available to them, the inherent risks associated, and which product(s) are most appropriate for them at what time."[59] Aegon UK, a provider of life insurance, pensions and asset management, told us that:

> However, there is a lack of consumer awareness that it's not a binary choice between having a flexi-access income drawdown product or a guaranteed income via an annuity. People may be unaware that they could move their pension savings into a flexi-access drawdown account, and at a later date, use some of their unused funds to buy an annuity providing a guaranteed income. This results in many people, without advisers, using only one product to provide a retirement income.[60]

28. A deferred annuity pays a guaranteed regular income at a date in the future. Deferred annuities may be particularly beneficial for savers to combine with drawdown. St James's Place told us that "Deferred annuities […] may provide a helpful solution to provide the required insurance against living to very old ages for many of these consumers" but added that the cost of these products means "no real market exists today."[61] The master trust Smart Pension told us:

> On deferred annuities the received wisdom is that people get to a certain age when it makes sense for them to insure against longevity. However, making decisions at that age becomes more complicated and tricky given the well documented decline in people's capacity to make financial decisions as they get older. Deferred annuities, within a strong choice architecture, could certainly have a role to play in helping providers and individuals manage that longevity risk.[62]

Hargreaves Lansdown, a provider of pensions and retirement services, said that "deferred annuities are subject to a more extreme version of the factors which affect standard annuities, such as low interest rates and the fear of losing out on premature death" and suggested this could be helped by "branding deferred annuities as longevity insurance".[63] It added that the Government should consider whether deferred annuities should be tax incentivised.[64]

56 Q64
57 Q5
58 Ibid.
59 The Investing and Saving Alliance (APS0011)
60 Aegon UK (APS0009)
61 St. James's Place (APS0013)
62 Smart Pension (APS0048)
63 Hargreaves Lansdown (APS0059)
64 Ibid.

29. It has been suggested that savers coming to access their pension savings could benefit from either default products or guidance towards products which might be suitable. B&CE, provider of the master trust the People's Pension, commissioned a YouGov survey in March 2021 which showed that:

> […] nearly four in ten (37%) would be prepared to be 'guided' towards taking a pension that was split between an annuity and a flexible income pot (drawdown), after taking the tax-free lump sum up-front; and a further 35% chose a 'guaranteed regular income only' option (an annuity) after taking the tax-free lump sum.[65]

It said that there are "two broad and potentially overlapping approaches possible", namely:

> To try and advise a larger proportion of those approaching decumulation.
>
> To devise a solution that works for most people and that does not require complex choices. This would comprise a combination of product mix, capital allocation and suggested drawdown rate that is intended to produce a good quality result for a typical individual.[66]

The Pensions and Lifetime Savings Association (PLSA) proposed "Guided Retirement Income Choices", part of which would be providing a "solution" that works for most people. The PLSA's proposal includes a new statutory obligation on schemes to provide guidance and signposting to suitable products. The PLSA said that making the obligation statutory should remove any uncertainty about whether the scheme was providing guidance or advice and would empower schemes to take action. It proposes that providers should be required to meet minimum standards in three areas:

> - Member engagement and communication
>
> - Providing or sign-posting to suitable product(s) (which are likely to be blended).
>
> - Governance standards for the design or selection of the products.

The PLSA lists the benefits of this framework as:

> To guide and inform savers–A saver communication and engagement journey, informed by behavioural economics, and deploying a 'path of least resistance' that enables schemes to signpost savers to a retirement solution either inside or outside the scheme.
>
> To deliver well-designed solutions–A set of minimum product standards that require schemes, who are better able than savers, to trade off the numerous and complex economic and decision-risks faced at retirement.
>
> To support schemes to deliver the framework–Key governance minimum standards to underpin the design and delivery of the above elements.[67]

65 B&CE, provider of The People's Pension (APS0045)
66 Ibid.
67 Pensions and Lifetime Savings Association (APS0055)

30. The consumer organisation Which? welcomed the PLSA's proposals, but also suggested that pension schemes should be required to provide a product which offers "sustainable income to savers that is paid out from their selected retirement age."[68] Nest said that "All savers should have access to a suitable retirement product that adheres to these principles". It suggested a retirement blueprint which "includes an income drawdown fund, a cash lump sum fund, as well as a later life protected income fund" and that "members would be automatically placed into this fund but they would retain flexibility to take their assets out of the scheme if they wished to up until the later years of their retirement." It also agreed with the PLSA that schemes offering or signposting an appropriate decumulation solution "should be a statutory obligation."[69]

31. Nest, having been established by the Government, is not able to offer drawdown. In 2015 it set out plans to create drawdown products, but the Department for Work and Pensions did not agree to these being taken forward, following reassurances from existing providers that they intended to innovate and create new products in the area. In April 2018, our predecessor Committee recommended "that the Government allows Nest to provide decumulation products" but the Government did not agree to the recommendation. The later life charity Age UK told us that allowing Nest to offer decumulation "would not only help existing members, but would also help set a benchmark standard for good quality retirement income products, particularly those on lower incomes."[70]

32. **We were told that most savers want a reliable income in retirement. Annuities provide this for savers with defined contribution pensions, but have dramatically fallen in use since the introduction of pension freedoms. The transition from defined benefit schemes to defined contribution schemes means that fewer people will have occupational pensions which provide a guaranteed income in future and therefore we expect there to continue to be a demand for annuities or annuity-like products.**

33. **Many more people than currently do, however, would benefit from making greater use of the pension freedoms by choosing a mix of annuities, lump sums and drawdown rather than a single product. For example, a person may wish to withdraw a lump sum when they first access their pension, later choose to use drawdown flexibly before finally choosing an annuity in later life.**

34. **Hybrid products which provide a ready-made mix of lump-sums, drawdown and annuities can be complicated and costly. We believe that a personalised mix of retirement products would better meet the needs of savers. However, these options will be difficult for savers to choose themselves without thorough guidance and most savers would likely need paid-for advice, which gives a personalised recommendation, to choose a suitable mix of products.**

35. ***We recommend that the Money and Pensions Service and the Financial Conduct Authority should develop proposals to increase the number of people choosing a mix of retirement products—including cash, drawdown and deferred annuities—to meet their changing needs at different stages of later life.***

68 Which? (APS0064)
69 National Employment Saving Trust (APS0040)
70 Age UK (APS0062)

Collective defined contribution schemes

36. The existing UK workplace pensions framework enables employers to offer either DB or DC schemes. There are downsides to both types of scheme: DC schemes may give a less predictable retirement income for scheme members and DB schemes can create significant risks to the employer. The Government used the Pension Schemes Act 2021 to create a third type of scheme: Collective Defined Contribution (CDC) pension schemes.

37. In CDC schemes, both the employer and employee contribute to a collective fund from which retirement incomes are drawn. The funding risk is borne collectively by the individuals whose investments make up the fund. Like a DC scheme, the employer carries no ongoing risk. CDC schemes offer a target income at retirement rather than a specified income like a DB scheme. If the scheme is under- or over-funded, then the amount members receive as a pension is adjusted to ensure that the fund's assets are equal to its liabilities.

38. The main advantages of CDC schemes are seen as:

a) Longevity risk sharing: DC members must manage their own pension pot to last for as long as their lifetime. There is a risk that they either underspend (dying with unused funds) or overspend (running out of money). Risk sharing enables a collective management of this risk by paying an income based on the overall life expectancy of members in the scheme, removing much of the risk associated with the large variations in individual life expectancies.

b) Investment scale: CDC may achieve greater scale than some non-pooled schemes and enable investing at lower cost.

c) Investment strategy: CDC investment strategy can be longer term and more risk seeking than DC saving. A DC pension pot is usually de-risked by shifting investment to safer, lower-return assets in the years leading up to retirement, to protect people from a sudden fall in value at the point of access. CDC can keep funds invested in return-seeking assets for longer if it has a mix of members in accumulation and decumulation.

d) Employers: CDC schemes allows employers to offer a pension scheme, with an income in retirement, without the risk that the employer will need to continue to fund the scheme with an uncertain cost indefinitely into the future.

39. CDC schemes already exist in the Netherlands, Denmark and Canada. The Pensions Management Institute told the us that:

> CDC has proved to be particularly successful in the Netherlands and Denmark: two countries consistently ranked most highly in the annual Mercer CFA Institute Global Pensions Index.[71]

Benefits for CDC schemes were cut in the Netherlands in 2021 and 2020. The Pensions Management Institute said that in 2021 the average cut was around 1.9% compared to a much larger cut for DC savers.[72] DC savers near the age at which they are able to access their pension are less able to repair losses compared to CDC schemes which are able to

71 Pensions Management Institute (APS0030)
72 Ibid.

hold risker assets with higher returns for longer. In the Netherlands there has been a recent move away from CDC schemes towards DC schemes. A partial cause is the reductions to members' incomes, though it has been argued that this was made more difficult because several Dutch CDC schemes were initially presented to members as defined benefit schemes giving a promised income. The Financial Inclusion Commission, an independent expert body, told us:

> However, getting to the point where these products might be sufficiently acceptable to the mass market is a big ask. The Dutch experience with CDC suggests that people are quite willing to see their returns smoothed up, but are not so keen to see them smoothed down.[73]

Paul McBride, representing the Society of Pension Professionals, said that "it is very difficult to get people to agree that their income levels can go down on the basis of other people joining and other people's experience". Dr Julia Mundy, a member of the statutory Financial Services Consumer Panel, raised concerns that:

> There are lots of potential problems with CDCs and they can in the worst cases begin to look like Ponzi schemes. They do need to be properly thought through and implemented before being let loose on people as yet another option that they do not understand.[74]

The former Pensions Minister Baroness Altmann compared this view to previous arguments made about DB schemes, telling us:

> Some people had originally argued that DB schemes were a bit of a Ponzi scheme, it was fine while the scheme was young and there was lots of money coming in. It was never going to last when lots of pensioners were there and not many younger workers paying in at the end.[75]

40. The main risks of CDC schemes are seen as:

a) Intergenerational fairness: In the Netherlands, capital buffers are used to protect members from fluctuations in income. Intergenerational unfairness may occur if an earlier generation provides a capital buffer used by a later one or if a later generation needs to replenish a capital buffer used by an earlier one. Capital buffers will not be a feature of UK CDC schemes.

b) Transfers out of CDC schemes: The Government proposes that individuals wanting to transfer out of a CDC scheme would receive a proportion of the collective fund. There is a risk that if members with lower life expectancy transfer out of a scheme, but are able to transfer out at full value, this will reduce the payments to other members and the advantages CDC schemes have in longevity pooling over DC schemes.

c) Member communications: CDC schemes are often seen as more difficult to explain than DB schemes which pay a promised benefit or DC schemes in which a saver builds up a pension pot which they can decide what to do with.

73 The Financial Inclusion Commission (APS0018)
74 Q6
75 Q175

d) Impact of a financial downturn: Benefits in CDC schemes are not guaranteed. If the fund's assets fall in value this can result in the benefits paid to members falling.

41. Baroness Altmann raised additional communication challenges with CDC schemes that are not present in DB or DC schemes. She told us that communication was important "so that members understand what a CDC scheme can do and what it cannot do without building up unrealistic expectations and, also, helping to explain that, although it would be a best efforts exercise to deliver the kind of pension that might be estimated for them, there are no guarantees."[76] Baroness Altmann told us that members with poorer health might choose to transfer out of a scheme if the transfer value was greater than the amount they might expect to receive from remaining in the scheme—which would decrease the overall value to other members because some of the benefits of longevity risk sharing would be lost. She explained:

> […] I would be interested to ask is how you cope with different health status of your members. […] Individual differences will end up being potentially important, and that is part of the communication challenge. How much will trustees of the CDC scheme be able to point out to members that if they are in poor health they might want to transfer, or they might not get as good value—you cannot give them advice to transfer but they might not get as good value as an impaired life annuity, for example?[77]

The Minister for Pensions and Financial Inclusion told us that these communication issues are "addressable, if there is such a word, in the schemes that we have designed. "[78]

42. The Royal Mail Group has the most advanced plans for a CDC scheme and is looking to launch the first such scheme in the UK under the Pension Schemes Act 2021. The Royal Mail and the Communication Workers Union agreed to introduce a CDC scheme following the Royal Mail's decision to close its defined benefit scheme in March 2018. A consultation on the "Royal Mail Collective Pension Plan" closed on 21 November 2021. Angela Gough, Head of Corporate Pensions at the Royal Mail, told us that modelling showed that the Royal Mail scheme benefits would be "over 30% higher than a DC scheme with the same contributions"[79] and that this was partly from being able to invest in return-seeking assets for longer and not having to pay the premium required for an annuity.[80]

43. The Royal Mail scheme will likely provide lessons for other employers or organisations looking to set up similar schemes. Angela Gough told us that:

> […] we have been working with the DWP and the Pensions Regulator for quite some time now and included in the secondary regulations will be a code of practice for the Pensions Regulator. That will be the basis of how the Pensions Regulator initially authorises the scheme as an appropriate CDC

76 Q141
77 Q168
78 Q185
79 Q152
80 Q153

> scheme and then there is an annual ongoing supervisory regime as well. We are working with them to understand what it is they would like to see as part of that authorisation and supervisory regime.[81]

The Minister for Pensions and Financial Inclusion told us that the Department for Work and Pensions will develop a framework to evaluate the success of the first tranche of CDC schemes and said that "we want to learn from when they have done it, but we are learning as we go at the same time."[82] Baroness Altmann told us to assess whether CDC schemes have been a success will likely take "30 years or more, because what you want to know is that the younger members who are putting their money in today that is paying the pensions of today's and coming up pensioners end up getting what they want."[83] In response to this the Minister for Pensions and Financial Inclusion told us:

> […] the long and the short of it is of course you can assess something on an ongoing basis, but for long-term longevity, you could say the same about automatic enrolment, which we are talking about. It was formulated in the 2000s, it was brought in in 2012, it only reached 8% just under two years ago and we are in a position where we do not know really where automatic enrolment is. Yet, every single politician in the House of Commons would say automatic enrolment is a tremendous success, and we have only just reached 8%.
>
> With CDCs, it is really simple. Do people take this up? I think people will take this up. There is an appetite. Secondly, can Government and regulators create a framework that genuinely provides an alternative to the two presently existing models for pensions in the workplace environment?[84]

44. CDC schemes could provide an alternative to an annuity. Laurie Edmans, Commissioner at the Financial Inclusion Commission, told us that:

> CDC could be provided as an alternative to annuities or indeed to drawdowns, but they will safely do so only if the general level of understanding is improved so that people in general are aware of and ready to accept that the income they get from them can go down as well as up.[85]

To be a practical alternative to the current annuity system, people would need to be able to move from a savings product (accumulation) to a CDC scheme when they start withdrawing their savings (decumulation). A decumulation-only CDC scheme would be made up only of members receiving an income from their pension savings. At the point a member wants to access their savings they would transfer from the DC (or DB) scheme in which they had built up their pension pot to the decumulation-only CDC. The Royal Society of Arts, an organisation committed to finding practical solutions to social challenges, told us that CDC offers a middle ground between DB and DC and that, based on evidence, CDC could provide a 20 percent higher pension than an annuity. TPR's proposed regulations only cover single or connected employer schemes. The trade

81 Q172
82 Q186
83 Q171
84 Q189
85 Q6

union Prospect noted that the Pension Schemes Act 2021 "only enables the establishment of single employer CDC schemes."[86] The Pensions Management Institute also noted this barrier but suggested that:

> Given the perennial challenges of trying to ensure that members make appropriate choices when faced with options, adopting CDC within the Master Trust sector would in most cases allow the perfect auto-enrolment pensions model, with effective defaults being possible during the induction, accumulation and decumulation phases.[87]

45. The Government says that the Pensions Act 2021 gives powers to enable decumulation-only CDC schemes, but it is not proposing allowing them under initial regulations. The Department for Work and Pensions said:

> We look forward to opening up [CDC] provision to a broader range of models in the near future when aspiring market participants have further developed their product designs. The 2021 Act contains powers to make secondary legislation to facilitate a wider range of [CDC] scheme designs in due course, building on the learning from this initial tranche of single or connected multi-employer schemes.[88]

The Minister for Pensions and Financial Inclusion, Guy Opperman, said:

> Many want to see non-connected multi-employer CDC schemes, Master Trusts and decumulation only CDC schemes. That interest is very welcome. I have no doubt collective provision can benefit millions of pension scheme members when its full potential is realised.
>
> Right now our priority is to ensure the full framework for single employers and connected multi-employer CDC schemes is in place as soon as we can, and this consultation is rightly focused on delivering that. But we are not deaf to calls from those who wish us to go further. Once this first step is done we will turn our attention to the growing demand for these other types of provision.[89]

46. We heard evidence that master trusts would be the best vehicle to provide multi-employer CDC schemes. A master trust is an occupational defined contribution pension scheme which is intended to be used by two or more unconnected employers. Master trusts are often used by employers without their own pension schemes to meet their auto-enrolment duties. Representatives from three master trusts, B&CE (People's Pension) and Scottish Widows told us that they were keeping an open mind about how CDC schemes might be used.[90] Matthew Arends, Head of UK Retirement Policy at Aon, told us "60% of individuals want an income for life in retirement, yet we know that something like 20% of people buy annuities" and that "mastertrusts have a big part to play in the future of CDC in this country because they will be the vehicles by which smaller employers, and possibly

86 Prospect (APS0008)
87 Pensions Management Institute (APS0030)
88 Department for Work and Pensions, The Occupational Pension Schemes (Collective Money Purchase Schemes) Regulations 2021, 19 July 2021
89 Ibid.
90 Scottish Widows (APS0037), B&CE, provider of The People's Pension (APS0045), and

the self-employed, could access CDC savings."[91] Simon Eagle, Chair of the CDC working party at Institute and Faculty of Actuaries, told us that "for a large majority of individuals in the UK to have access to CDC it will need master trusts."[92]

47. It has been suggested that CDC schemes could become a default decumulation product for people with DC pensions. Baroness Altmann told us that she was concerned that a CDC scheme would not be the best default product for individuals and added:

> […] if people have not used their pension fund or taken money out or locked into a lifelong pension commitment there could be money left to help them pay for care. […] I would be very nervous about having any kind of default option that forces people into crystallising their fund, just as I was not comfortable with the mandatory annuitisation, which I think most of us would agree we are pleased we got away from.[93]

David Pitt-Watson, Leader of the Tomorrow's Investor Programme at the Royal Society of Arts, told us:

> You will know in most accumulation people just go straight to the default option, rather than choosing the investment they might want. While you do not want to force people to do anything, if you have provided the information and you have proper trustee governance of this—so this is not someone trying to make a profit off you, this is a trustee that owes a duty to you—then the thought that there is a simple way that you could move into a CDC for income, that you were satisfied with, would be quite a sensible thing to arrange for people, but not forcing people.[94]

48. The proposed CDC regulations only allow for trust-based schemes which are regulated by the Pensions Regulator (TPR). This creates an asymmetry as many people choose to use contract-based products regulated by the FCA when they access their pension. It is not clear if this will be a barrier to the take-up of CDC schemes, particularly in decumulation. Sarah Pritchard, Executive Director–Markets at the FCA, told us that:

> If the FCA was to regulate CDCs that would require legislative change and for Government to determine that there will be use in introducing CDCs in the context of individual personal pensions, which are pensions that we regulate. Of course, we wait to see how CDCs develop and we are, as always, speaking to officials and counterparts and are willing to play our role as a regulator as and when that market develops.[95]

49. Both the Government and regulators are thinking about enabling multi-employer CDC schemes. David Fairs, Executive Director at the Pensions Regulator, said that TPR "and DWP are very much thinking of the progression from single employer to multi-employer to master trusts providing CDC but there are different risks that we need to think through very carefully before we open the doors to master trusts using those

91 Q39
92 Q160
93 Q161
94 Ibid.
95 Q83

vehicles."[96] The Minister for Pensions and Financial Inclusion told us that he is keen for the Department to work on multi-employer CDC schemes at the same time as the Royal Mail scheme is being developed:

> There are capacity issues. This is technical stuff, it is not simple, but definitely we want to make progress on multi-employers at the same time. We are open to understanding what the future of CDCs should be going forward. The question in my view is: you feel that you can get Royal Mail CWU over the line, you feel that multi-employers is the next step and what can we do with this going forward.[97]

The Minister told us that multi-employer regulations would not be in place before the summer of next year.[98]

50. **The Pension Schemes Act 2021 enabled collective defined contribution (CDC) schemes, which provide retirement incomes from a collective fund. The income from the fund received by members varies depending on how the fund performs. There is demand for the further development of CDC schemes in future and it is therefore right that the Government continues to support this. We welcome the Government's intention to start consultations on master trust and multi-employer CDC schemes later this year.**

51. **The Royal Mail CDC scheme is likely to be the first of its kind under the Pension Schemes Act 2021. We anticipate other employers and organisations will want to learn from this scheme.** ***We recommend that the Government publishes a framework for assessing the success of this and other early schemes.***

52. ***We recommend that the Pensions Regulator works with the Royal Mail to develop a toolkit for other employers looking to set up similar schemes.***

53. **For CDC schemes to provide a realistic alternative to annuities, people with defined contribution pension pots need the option to be able to transfer to decumulation-only CDC schemes. In future these may be available through master-trusts regulated by the Pensions Regulator.** ***We recommend that the Financial Conduct Authority consider whether there is also a case for developing contract-based CDC schemes and publish its findings.***

96 Ibid.
97 Q186
98 Q187

3 Supporting decision making at the point of access

54. The Financial Conduct Authority (FCA) told us that consumers describe pensions as a "minefield" and even those who felt "confident in other aspects of their financial lives said they struggled to understand how pensions work and found it easy to put off finding out more."[99] Individuals looking to make decisions about their pensions can seek both advice and guidance. Advice is a personalised recommendation and can only be provided by FCA-regulated firms on the Financial Services Register. Guidance is a broader term including general information and signposting about pensions. Guidance does not include a recommendation but can be offered by any organisation. Guidance is available from public bodies to individuals through MaPS MoneyHelper brand and Pension Wise.

Investment pathways

55. Since February 2021 defined contribution drawdown providers have had to offer non-advised consumers a choice of investment pathways depending on how they plan to use their money. The four pathways, each linked to a particular objective, are designed to enable nonadvised consumers to achieve better outcomes by helping them to choose the best way to invest their money in drawdown. The FCA told us that:

> At the point which consumers access their pension savings, consumer objectives may be more varied, and they must make a number of different choices depending on how they want to live in retirement. Investment pathways are also designed to protect consumers who are reluctant or hesitant to engage with investment decisions by simplifying and prompting an active choice. Like auto-enrolment, pathways have been designed to ensure that, on average, consumers will get a better outcome than if they had been left to make decisions unsupported.[100]

56. Much of the evidence submitted to us viewed investment pathways as a positive, but only partial step. Standard Life Aberdeen welcomed that the investment pathways "recognise that no one size fits all for people in retirement."[101] Age UK told us that investment pathways are "a clear step in the right direction" but "are only one part of the required support system" which it would like to see alongside opt-out solutions including:

> As people first choose to access their savings, they are defaulted into a Pension Wise appointment.
>
> Once savers have decided how they want to access their pensions in future, they are placed on an investment pathway to maximise returns against their desired outcome.

99 Financial Conduct Authority (APS0061)
100 Ibid.
101 Standard Life Aberdeen (APS0019)

> When the money is accessed, people's income should be smoothed to meet their requirements, using product pathways that are designed by providers (who are well placed to understand their customers' needs) in conjunction with the FCA.[102]

M&G Plc, a saving and investment company, told us that "Whilst investment pathways can suggest a 'suitable for the majority' investment, for those who opt to place their pension savings in an income producing solution (such as drawdown) it does not help with the decision about whether such a product is right in the first place, nor is it able to take an individual's circumstances into account."[103] Aon told us that "the overall positive effect of having an identified and reasonable default decumulation option outweighs the negative that individuals' needs will be very diverse in retirement".[104]

57. We were told that while investment pathways are a positive development they are not a substitute for regulated advice. Renny Biggins, Head of Retirement at The Investing and Saving Alliance, told us:

> The ideal situation would be everybody taking regulated advice. The next best situation would be some people taking regulated advice but with a big take-up in people taking effective guidance. Are the investment pathways a good alternative to either of those or a substitute? Absolutely not. Are they a step in the right direction? Absolutely.[105]

Lane, Clark & Peacock told us that "investment pathways do not help those who have already decided to take their money out in full" and that there is a "risk of unspent balances being left on deposit in accounts with ultra low rates of return."[106] Aegon UK said that "Investment pathways do not help with longevity risk or in arriving at a sustainable level of income."[107] St James's Place told us that:

> We would also caution against a false sense of security from assuming investment pathways have made drawdown 'safe' for disengaged consumers. The big risks in drawdown come from not planning and regularly reviewing how and when to take withdrawals from the fund. This can lead to the premature exhaustion of the fund, unnecessary tax paid, or taking investment risk that may not be appropriate for the individual's circumstances. None of these risks are addressed by investment pathways and so there remains a significant risk that a consumer in the 'best' investment pathway is still in a fundamentally unsuitable product.[108]

Philip Brown, Director Policy and External Affairs at B&CE which runs the master trust the People's Pension, said that he was not sure whether investment pathways would work for wider retirement challenges beyond preventing poor outcomes for non-advised savers using drawdown. He added a concern that "if you look at the FCA's own research on investment pathways, most of the people who went through it could not choose the right

102 Age UK (APS0062)
103 M&G PLC (APS0039)
104 Aon (APS0038)
105 Q16
106 Lane, Clark and Peacock (APS0027)
107 Aegon UK (APS0009)
108 St. James's Place (APS0013)

pathway. That may play out differently in the way providers are designing these solutions. It is a worrying aspect that if the research showed they could not choose, we went ahead and implemented it."[109]

58. We heard that a charge cap on drawdown products offered through investment pathways would protect savers. B&CE, provider of the People's Pension, told us that although investment pathways are a "good idea in principle" they have concerns including the "danger or people being over-charged" because there is no charge cap in place.[110] Which? noted that drawdown products were "originally designed for sophisticated investors" and also suggested that a charge cap on drawdown products accessed by non-advised customers would protect them from excessive charges.[111] There is a charge cap of 0.75% on DC schemes used for auto-enrolment and our predecessor Committee recommended, in its Pension Costs and Transparency report, that a similar 0.75% charge cap should be set for decumulation products available through investment pathways.[112] The FCA did not cap charges on options available to savers through investment pathways, but did say that "The FCA expects firms to challenge themselves on the level of charges they impose on investment pathways. If the FCA subsequently identifies issues with charges, it may move towards imposing a cap."[113] In a joint letter, the FCA and TPR told us that the FCA is expected to begin a review of investment pathways in spring 2022 and share the lessons with TPR.[114]

59. Investment pathways are currently only a feature of FCA regulated contract-based schemes and not the trust-based ones regulated by the Pensions Regulator. Bloomfield Financial Consultancy, a specialist management consultancy with a focus on the pensions market, said to us:

> DWP and TPR do not appear to have offered so much as an explanation as to why trust-based customers do not deserve similar protection. And this is all very concerning given the joint regulatory strategy that is supposed to exist between the FCA and TPR.[115]

David Fairs, Executive Director at the Pensions Regulator, told us that:

> It is not something that we have had to deal with, because it didn't happen within our regulatory sphere. It is now, so we are thinking about the considerations that the FCA have had to do around investment pathways, vulnerable customers and so on. We are in discussions with DWP on whether investment pathways are appropriate to bring in to the schemes that we regulate as well.[116]

The Financial Inclusion Commission told us that it believes "similar pathways should be mandated for members of trust-based schemes. It seems illogical that a difference should

109 Q72
110 B&CE, provider of The People's Pension (APS0045)
111 Which? (APS0064)
112 Work and Pensions Committee, Pension costs and transparency, Twenty-Ninth Report of the Session 2017–19, 24 July 2019, para 115
113 Financial Conduct Authority, FCA proposes rules on investment pathways and other measures to improve retirement outcomes for consumers, 28 January 2019
114 Correspondence with FCA and TPR following up on the 22 September evidence session, 12 November 2021,
115 Bloomfield Financial Consultancy (APS0034)
116 Q99

exist when, in most practical terms, they are identical."[117] When asked about trust-based investment pathways, the Minister for Pensions and Financial Inclusion told us "Yes, we are going to look at this. Yes, we are doing a call for evidence in the next year."[118]

60. Investment pathways are not the only area where there are differences between schemes regulated by the FCA and schemes regulated by the Pensions Regulator without a clear rationale. Aviva told us that that "Efforts to improve member engagement have often had the unintended effect of adding more complexity to the system and served to further exacerbate the different approaches", giving the example of requirements introduced by the FCA following its Retirement Outcome Review that were not introduced for trust-based schemes.[119] These include:

a) Wake-up packs from age 50 and at 5-yearly intervals thereafter.

b) Annual statements provided to all pension customers who have partially accessed their pensions.

c) Regular communications for investment pathway customers that ensure their chosen pathway is appropriate for their needs and circumstances.

d) Standardised presentation, including charges, in key facts documents about retirement income products.

The Association of British Insurers told us:

> Similar requirements have not yet been introduced by DWP for trust-based pension schemes, though some of our members serving such schemes have introduced them where appropriate. There are also some unhelpful gaps in data relating to differences between trust-based and contract-based pension schemes, which makes it difficult to compare trends in the two types of scheme. For example, there is no publicly available data showing Pension Wise usage levels among trust-based schemes; and no data comparable to the FCA's about the retirement income choices made by members of those schemes.[120]

The Pensions Regulator told us:

> In 2019, the FCA introduced new rules for contract-based schemes to provide wake-up packs from the age of 50, with risk warnings set out on a single page. These packs are then sent at least every five years until the saver has fully crystallised their DC pot. Currently, trustees of occupational DC schemes are required to provide wake-up packs at least four months before a saver's 55th birthday. We are supporting DWP in developing equivalent requirements for trustees, to align disclosure requirement across the pensions sector. […] In light of the Covid-19 pandemic, our

117 The Financial Inclusion Commission (APS0018)
118 Q216
119 Aviva (APS0010)
120 Association of British Insurers (APS0043)

> collaborative work was ramped up. We published a joint statement with the FCA and MaPS in March 2020 urging savers to be 'ScamSmart' and visit The Pensions Advisory Service (TPAS) for guidance.[121]

The Minister for Pensions and Financial Inclusion acknowledged that co-ordination between the FCA and the Pensions Regulator could be better:

> I think the situation between the FCA and TPR is better than it was. When I compare it to, say, four years ago when I first started this job I think it is definitely better. I think the new chief executive of the FCA is definitely driving this forward and the new chief executive of the Pensions Regulator is driving this forward. Could they be more joined up? Yes, unquestionably.[122]

61. **Measures are in place for contract-based schemes to offer investment pathways, but equivalent measures are some way off for trust-based schemes and their final form may differ. This is not an isolated case of different measures being in place for contract-based and trust-based schemes without a clear rationale. We are disappointed that yet again the two pension regulators dealing with savers in near identical positions have failed to coordinate their work resulting in unnecessary risk for members of trust-based schemes and the pension landscape being more confusing than necessary.** ***We recommend that all consultations covering pension regulation should be run jointly by the Pensions Regulator and the Financial Conduct Authority unless there is a clear and published reason for a different approach.***

62. **The Department for Work and Pensions and the Pensions Regulator are developing proposals for equivalent measures to investment pathways for trust-based schemes.** ***We recommend that investment pathways should have the same form for contract-based and trust-based schemes.***

63. **There is a charge cap for savers who default to a scheme through auto-enrolment.** ***We recommend that there should be a similar charge cap for non-advised savers choosing a decumulation product through investment pathways. The Financial Conduct Authority should report on this as part of its upcoming review on investment pathways.***

Pension Wise

64. Pension Wise was established to provide the "guidance guarantee" which was presented by the then Government as a key pillar of the introduction of the pension freedoms. It is now delivered through the Money and Pensions Service. For those who use it Pension Wise has been widely seen as beneficial and in the first part of our inquiry, on pension scams, we recommended that the Department for Work and Pensions set out a plan for Pension Wise use becoming the norm.[123] The Department told us that it would respond further to that recommendation following the publication of this report.[124]

65. The 2019/20 Pension Wise user evaluation found that:

121 The Pensions Regulator (APS0044)

122 Q217

123 Work and Pensions Committee, Protecting pension savers—five years on from the pension freedoms: Pension scams, Fifth Report of Session 2019–21, 24 March 2021

124 Work and Pensions Committee, Protecting pension savers–five years on from the pension freedoms: Pension scams: Government, The Pensions Regulator and Financial Conduct Authority Responses to the Committee's Fifth Report of Session 2019–21, Second Special Report of Session 2021–22, 30 June 2021

a) 94 per cent of appointment users were very or fairly satisfied with their overall experience of Pension Wise (77 per cent of whom said very satisfied and 18 per cent fairly satisfied);

b) 88 per cent of appointment users said Pension Wise helped improve their understanding of their pension options;

c) 70 per cent of Pension Wise users correctly answered eight true/false statements relating to their pension options compared to 43 per cent of non-users; and

d) 95 per cent of Pension Wise users said their appointment left them feeling very or fairly confident in their ability to avoid pension scams, compared to 79 per cent among non-users.[125]

The Chair of the Money and Pensions Service, Sir Hector Sants, told us in March 2020 that:

> A significant number of the people who contact Pension Wise will come away saying that, after having spoken to our guidance service, they have concluded that they should do something different from what they had in mind in the first place […] There is a figure that suggests that 72 per cent of people are saying they have changed their mind about what they will do as a result of talking to our guidance service. In a way, that is a simple statistic that tells you that the vast majority of people, left to their own devices, will probably make a poor decision.[126]

Tom McPhail, Director of Public Affairs at the lang cat–a financial services consultancy, led a Departmental Review of the Money and Pensions Service which was published in November 2021, which commented:

> On pension freedoms and the Pension Wise service, the world has moved on since the freedoms were first announced in 2014. To date, there has been very little evidence of the Freedoms reforms being abused or of unintended consequences emerging. The main criticism has been a lack of take up of Pension Wise by people accessing their pensions.[127]

66. The Financial Guidance and Claims Act 2018 requires the FCA to ensure that consumers have received appropriate pensions guidance or have opted out of guidance before accessing or transferring their pension savings. In July 2020 the Money and Pensions Service published the results of behavioural (or "nudge") trials to increase the use of Pension Wise through "stronger nudge" interventions. Of the people who received an intervention in the trial, 11% attended a Pension Wise appointment—compared to 3% in the control group.[128] In May 2021 the FCA launched a consultation for contract-based schemes on booking Pension Wise appointments, which included proposals to include the measures from the most successful nudge trials into its rules. The consultation also asked for views on increasing the use of Pension Wise guidance more broadly. Colin Clarke,

125 Money and Pensions Service, Pension Wise service evaluation 2019/20, 5 October 2020
126 Work and Pensions Committee, Money and Pensions Service, Q66, 11 March 2020
127 Department for Work and Pensions, Departmental Review of the Money and Pensions Service (MaPS), 1 November 2021
128 Money and Pensions service, The Stronger Nudge: Evaluation Report, July 2020

Head of Product Policy Strategy for the Workplace DC Pensions business at Legal & General, expressed a concern that the FCA's proposals were not the same as the measures in the stronger nudge trials:

> We were one of the providers that participated in the early trials of the stronger nudge. The point at which the FCA said that the nudge needs to happen was not the point that was trialled. The trial took place on the first contact of somebody saying, "Can you give me some information on my options?" not saying, "I have made up my mind about my options and I want to do something". I am a little unsure as to why the regulator has decided to put the stronger nudge in a place that was not tested with consumers and how their version of the nudge will work, whether it is successful or otherwise.[129]

The FCA published its final rules in December 2021. From June 2022 providers will be required to:

- refer customers to Pension Wise guidance
- explain the nature and purpose of Pension Wise guidance
- offer to book a Pension Wise guidance appointment in most cases, or provide customers with information to help people who want to book their own appointment[130]

The consultation also sought views on a cooling off period and an additional earlier nudge. It found industry respondents did not support additional friction, but "some consumer groups were in principle warm to the idea". The FCA said there "was much greater support for an earlier nudge".[131] The next stage of its work will start in early 2022 looking at additional ways to support consumers.

67. On 9 July 2021 the Department for Work and Pensions launched its consultation on the stronger nudge to pensions guidance, covering trust-based schemes. However, its proposals differed from those put forward in by the FCA, in that the opt-out requirements are more onerous. Pension schemes will be required to offer to book a Pension Wise appointment for the member as part of the application process to access their pension pot. If a person wants to opt-out of a Pension Wise appointment they will not be able to do this at the same time they are offered an appointment. This means that anyone wishing to opt-out will need to proactively contact their scheme to do so.[132] The Minister for Pensions and Financial Inclusion told us that he had been influenced by members of our Committee during the passage of the Pension Schemes Act 2021 and that the proposed measures are "not an automatic system, but it is a very strong nudge to take this up unless you really do not want to do so."[133]

129 Q71
130 Financial Conduct Authority, FCA announces plans for stronger nudge towards pension guidance, 1 December 2021
131 Financial Conduct Authority, The stronger nudge to pensions guidance: feedback on CP21/11 and final rules and guidance, Policy Statement PS21/21, December 2021
132 Department for Work and Pensions, Stronger Nudge to pensions guidance, 12 July 2021
133 Q194

68. Previously the Minister for Pensions and Financial Inclusion had said that Pension Wise should become the norm,[134] though told us that this meant being offered an appointment.[135] Before the Minister told us this, his earlier statements had been welcomed by consumer groups. The Financial Inclusion Commission told us:

> the Financial Inclusion Commission warmly welcomes the Government's commitment to achieving a "norm" of Pension Wise guidance usage. If delivered promptly and effectively, this outcome will extend the evident positive impact of this service to thousands of people who are likely to benefit, including many who are clearly unlikely to self-direct to an appointment without significant encouragement to do so.[136]

Money Alive Limited, a regtech firm, told us that there should be a goal of 60% of people taking up a Pension Wise appointment:

> The objective of Project 60 is to get 60% of people to engage with good quality information about their pension freedom choices through Pension Wise. This is a huge, and Money Alive believe, achievable increase in the number currently taking advantage of the offer of free impartial guidance. Because the idea is partly delivered and facilitated by existing technology it can be cost neutral and piloted now.[137]

69. Ministers, regulators and the Money and Pensions Service would not commit to a percentage of people they think should be taking guidance or advice. David Fairs, Executive Director at the Pensions Regulator, told us that it "is a very difficult question to answer because people's retirement wealth at the moment is made up of a mix."[138] Carolyn Jones, Head of Money and Pensions Guidance Policy and Strategy at the Money and Pensions Service, told us that the Money and Pensions Service does not have a target percentage for take up of Pensions Wise guidance.[139] The Minister for Pensions and Financial Inclusion told us that a "solitary figure without consideration of everything else" is "an unfair and inappropriate approach."[140]

70. We heard that Pension Wise was likely to be a more effective intervention if it came earlier, before someone had made a decision to access their pension savings. Aviva, who were involved in the stronger nudge trials, told us:

> We support this and have participated in trials in conjunction with MAPS and DWP to assess the most effective approach. For the nudge to be effective, our experience suggests that it should occur much earlier in the customer journey, rather than at the point when they are due to retire. This would ensure that people still have time to make a material difference to their planning if, for example, they realise that they have not saved enough to achieve their retirement objectives.[141]

134 Pension Schemes Bill, Commons debate, Vol 684, Column 136, 16 November 2020
135 Q214
136 The Financial Inclusion Commission (APS0018)
137 Money Alive (APS0069)
138 Q88
139 Q114
140 Q206
141 Aviva (APS0010)

Just Group, a provider of retirement income solutions, care plans, Defined Benefit pension de-risking solutions and lifetime mortgages, told us that the stronger nudge is "an intervention at the wrong time that stands no chance of delivering the scale of impact required."[142] Rachel Vahey, Senior Technical Consultant at AJ Bell, similarly told us that the stronger nudge comes too late in the process.[143] A subsidiary of the professional services consultancy Barnett Waddingham LLP, told us that the FCA's proposals were "not only impractical, but is essentially providing members with the wrong message at the wrong time" and instead proposed mandatory Pension Wise appointments at 50, potentially phrased as "auto-guidance".[144] Age UK and the Centre for Ageing Better, a charitable foundation, made the same recommendation and said that the appointment "should be repeated each year unless they take the appointment or opt out."[145]

71. There was significant support for automatic Pension Wise appointments. The Association of British Insurers told us that the "limited impact" from trials will not be enough to make "usage of Pension Wise the norm" and suggested that "bold, transformational measures" are tested.[146] Yvonne Braun, Director of Policy, Long Term Savings & Protection at the Association of British Insurers, told us that the Association of British Insurers believes that "an auto-booking system should be trialled."[147] Laurie Edmans, Commissioner at the Financial Inclusion Commission, said that he understood scepticism about auto-appointments but explained "If people are firmly wedded to doing something different, fine, but that concept could at least be trialled and I believe it should be."[148]

72. The Money and Pensions Service and Regulators are willing to consider an automatic appointment trial. Carolyn Jones, Head of Money and Pensions Guidance Policy and Strategy at the Money and Pensions Service, told us that:

> If FCA and DWP trial auto appointments, we would absolutely support them in that trial. We would take the role of making sure not only does the automated appointment get more people to us but are they getting the outcomes they need? Both FCA and TPR talked about mid-life MOT and how that can help people in that earlier stage of life with the planning aspects of retirement. That is something we are also looking at.[149]

Sarah Pritchard, Executive Director–Markets at the FCA said that the FCA would be open to considering a trial but that "it would be a poor outcome for consumers if there are different rules in one environment compared with the next."[150] David Fairs, Executive Director at the Pensions Regulator, however said:

142 Just Group (APS0049)
143 Q49
144 BW SIPP LLP (APS0056)
145 Age UK (APS0062) and
146 Association of British Insurers (APS0043)
147 Q19
148 Q11
149 Q116
150 Q90

> I think the challenge with auto appointment at the moment is that appointments could be created, a significant number of individuals would not turn up for those appointments and it would tie up quite significant levels of resource that might be better deployed in other ways.[151]

73. There were some concerns about automatic Pension Wise appointments. One of the most significant concerns is that many savers have multiple pension pots with different providers and schemes which means that they will receive multiple nudges or automatic appointments because it is not possible for providers or regulators to identify individual savers. The Minister for Pensions and Financial Inclusion told us that the Department for Work and Pensions lacks individual level data but is part funding a data project "to provide longitudinal analysis of data and trends in DC pension provision" including the number of pots held by members.[152] Peter Glancy, Head of Pensions Policy at Scottish Widows, told us that a single intervention at age 50, rather than the current approach through providers, may be one way around this.[153] AJ Bell told us that:

> This policy would ignore the existence of a significant number of individuals who are sufficiently financially literate to make decisions about their own pensions. It would also ignore the significant number of individuals who would refuse to engage with the guidance provided to them because they'd view it as an example of a nanny state.[154]

Cost was another major concern. Aon warned about the cost of missed appointments by members who have not realised an appointment has been made.[155] Tess Page, Chair of DC Committee at the Association of Consulting Actuaries, raised concerns that if the Money and Pensions Service continued to provide all Pension Wise appointments there would be a significant increase in the levy paid by the industry to fund it.[156] The Minister for Pensions and Financial Inclusion told us that automatic Pension Wise appointments would require new primary legislation and the Department estimates that the cost of auto-appointments is between £45 million and £80 million.[157] Pete Searle, Director, Private Pensions and Arm's-Length Bodies at the Department for Work and Pensions, clarified that this is "a very approximate initial estimate".[158]

74. **Pension Wise is a well-regarded but under-utilised service. The pension freedoms will be seen as a failure if savers make poor decisions without receiving the guidance they were promised when the freedoms were introduced. The Minister for Pensions and Financial Inclusion's previous agreement that having a Pension Wise appointment should be "the norm" was welcome, but he has since distanced himself from this view. Neither the Minister nor regulators would tell us what they thought the usage levels of Pension Wise should be. It is clearly unrealistic to expect Pension Wise usage to be universal—some people will already have taken paid-for advice or had an earlier appointment for guidance—but that should not be a barrier to setting a stretching**

151 Q87
152 Correspondence with the Minister for Pensions and the Economic Secretary to the Treasury, following the evidence session on 8 November, 6 January 2022
153 Q71
154 AJ Bell (APS0050)
155 Aon (APS0038)
156 Q24
157 Q220
158 Q222

target for increasing take up. ***We recommend that the Government sets a goal for the Money and Pensions Service for the combined use of Pension Wise and paid-for advice when accessing pension pots for the first time. This goal should be at least 60 per cent and expressed in terms of individuals rather than pots. It could include an exemption for smaller levels of saving.***

75. **The "stronger nudges" towards guidance being proposed by the Department for Work and Pensions and the Financial Conduct Authority will not be enough to make receiving pensions guidance the norm. The Money and Pensions Service told us that it would support a trial of automatic Pension Wise appointments and we can see no clear barrier to doing this. The Minister for Pensions and Financial Inclusion has expressed reservations about introducing automatic appointments—but those could be tested by a trial.** ***We recommend that automatic Pension Wise appointments are trialled. The Government should initiate two trials: one with an appointment when a person accesses their pension for the first time and another at the age of 50, before they can access their pension savings.***

76. **Many savers have multiple pension pots with different providers and schemes. At the moment, it is not possible for providers and regulators to aggregate data on individual savers, rather than individual pension pots. This makes it more difficult to ensure that savers are getting the advice they need.** ***We recommend that aggregating and individual savers, rather than pots, becomes a key priority for the FCA, the Pensions Regulator and the Department for Work and Pensions. As a matter of urgency, so as not to delay the programme, the Department for Work and Pensions should work with the Pensions Dashboard Programme to establish whether pensions dashboards may be a route for doing this.***

Advice

77. Advice is a personalised recommendation that can only be provided by FCA regulated firms on the Financial Services Register. Much of the evidence we received raised concerns about the low numbers of people willing to pay for financial advice. The Investing and Saving Alliance told us that individuals not receiving appropriate guidance or regulated advice is "the biggest single issue that needs to be resolved."[159] Aviva told us that the most significant barriers to advice are cost and savers' overconfidence in their own ability to make good decisions. Aviva explained that efforts to address these are both hindered by regulations and the risk of future liability claims. It told us:

> Nearly 400,000 more people now fall into the "affordable advice gap", which affects people who are willing to pay for advice but think it is too expensive. 5.8m people would be willing to pay for advice if it cost less. Around 20% of people would consider paying for advice, but only 6% would pay £500 or more - a typical cost for simple investment advice.[160]

The Association of British Insurers told us that people may not take advice because "some are concerned about the cost (and only wish to take one free hour at the beginning), some feel they could do it better themselves and some are apprehensive due to lack of knowledge and appearing stupid." It added "that 72% of people were not willing to pay for

159 The Investing and Saving Alliance (APS0011)
160 Aviva (APS0010)

financial advice either digitally or face-to-face, and there were mixed views on how they want to receive guidance, suggesting there needs to be a range of options available to suit individual needs."[161] Philip Brown, Director Policy and External Affairs at B&CE which runs the master trust the People's Pension, agreed that willingness to pay is a barrier and also told us that there "is an economic value that advisers cannot go below because it is not economically viable for them to give advice to pots of that size."[162]

78. Government and regulators are aware that the low levels of advice take up is a problem. Sarah Pritchard, Executive Director–Markets at the FCA, told us:

> From an FCA perspective, it is not clear what prompts the low take-up of financial advice. We know from our financial lives survey most recently that only 8% of adults receive financial advice. That is a very low percentage of the population. […] I don't think that we are able to provide a view on whether it is the level of financial support that is prompting low take-up of advice or whether it is because consumers are not engaged and have disengaged from pensions because they find them too complex, but it is clear that take-up rates of advice are low.[163]

The Economic Secretary to the Treasury told us that "Previously the FCA have set up an advice unit to give feedback to firms on [automated models of digital advice], and offer tools and resources for all firms on that."[164]

79. There is a stark difference between the advice requirements for people with defined benefit pensions and people with defined contribution pensions. Anyone wanting to transfer a defined benefit pension worth more than £30,000 must take financial advice. The same requirement does not apply to members of DC schemes. The Centre for Ageing Better told us that "The focus on nudges and signposting for DC members also contradicts the advice requirements and regulatory focus given to DB members who want to transfer pots over £30,000."[165] The Association of Consulting Actuaries gave us an example of a "consumer with a £0.5m savings pot [who] would not be required to take advice on whether or not it was suitable or appropriate to transition this pot to a drawdown arrangement with a potentially higher risk investment strategy and higher charges."[166] St. James's Place told us:

> The FCA data also shows that over 40,000 people fully withdrew pension pots over £30,000 in 2019/20, which seems unlikely to be the optimal course of action for anyone given the tax consequences of doing so, especially for the 15,000 that were over £50,000. This would indicate that not all those needing support to make good (not just informed) decisions are getting it.[167]

80. The high cost of pensions advice that for some people with smaller pension pots that the benefit from receiving advice will be smaller than the amount it costs. The Economic Secretary to the Treasury told us:

161 Association of British Insurers (APS0043)
162 Q65
163 Q85
164 Q196
165 Centre for Ageing Better (APS0012)
166 Association of Consulting Actuaries (APS0029)
167 St. James's Place (APS0013)

> When we look at it in the context of the size of pots that people have, then clearly what we need is good guidance that allows people to define basic options, but when most of those pots are very small then it is questionable what value detailed advice would give. Often it is clear that those pots are not a major source of pension income.
>
> If I look at people who have accessed pension pots of higher value, then clearly they are more likely to use advice or guidance before making their decision. There were 40% of pots under £30,000 who used advice or guidance before access, compared to 78% for those larger than £100,000.[168]

Peter Glancy, Head of Pensions Policy at Scottish Widows, told us that advice cannot be "the preserve of the wealthiest 20% of the population" and that "We really need to challenge ourselves, government regulators and the industry to be able to provide some sort of advice that is available for in the region of £100 to £200."[169]

81. **Advice is a personalised recommendation that can only be provided by a regulated firm at a cost. Few people seem to be willing to pay for financial advice for the decisions they make about their pension savings—even though doing so could significantly improve their financial situation. More people would benefit from regulated advice before accessing their pensions than currently use it.** ***We recommend that the Government should report annually on progress and plans to increase the uptake of pensions advice.***

Pensions Advice Allowance

82. The Pensions Advice Allowance was introduced in 2017 and allows £500 to be withdrawn from a pension up to three times in different tax years for advice. In the first part of this inquiry, we recommended that the overall cap of £1,500 should be reviewed and the annual cap of £500 on the amount which can be withdrawn in any one year under the pensions advice allowance should be removed. In its response the Government said that the £500 annual cap was introduced for two main reasons.

a) The 2016 Financial Advice Market Review (FAMR) had concluded that automated advice services could significantly increase provision of affordable financial advice to the mass market, and several such services cost around £500 when the consultation was drafted.

b) There was an expectation that, where the annual cost of advice would exceed £500, the allowance would be used as a partial but significant contribution towards this cost.[170]

83. There was significant support for the recommendation from our first report. The Personal Investment Management and Financial Advice Association strongly agreed with our proposals, saying:

168 Q190
169 Q61
170 Work and Pensions Committee, Protecting pension savers–five years on from the pension freedoms: Pension scams: Government, The Pensions Regulator and Financial Conduct Authority Responses to the Committee's Fifth Report of Session 2019–21, Second Special Report of Session 2021–22, 30 June 2021

> In our view, pension schemes could do more to flag the advice allowance in their wake up packs. We do not believe that the advice allowance is adequately sign posted whilst there are no requirements from the FCA to require schemes to do more. More broadly we would argue that schemes should take steps to offer it to their members–we do not accept the argument that adviser charging represents an adequate alternative given that they are demonstrably for different cohorts.[171]

84. Aon said that it supports observations "about the lack of effectiveness of the pensions advice allowance and agree that this does not appear to be meeting savers' needs."[172] When asked about the Pensions Advice Allowance, Alex Connolly, COO at the Money and Pensions Service, said that "The cost of advice is a barrier and the advice allowance is potentially an option for people to get around that barrier."[173]

85. Some witnesses were cautious about how successful the allowance could become. Laurie Edmans, Commissioner at the Financial Inclusion Commission, said that the Mirror Group tried a scheme similar to the advice allowance before it was introduced which had "miniscule" take-up.[174] Chris Brooks, Head of Policy at Age UK, said that the advice allowance probably would not help the mass market.[175] Renny Biggins, Head of Retirement at The Investing and Saving Alliance said "I am not against the review of the advice allowance but I am not sure it has been given a fair chance at the moment. A lot of people do not know it even exists. It has not been particularly well communicated."[176]

86. The Government and regulators told us that there may be a more significant role for the pensions advice allowance in future. David Fairs, Executive Director at the Pensions Regulator, said:

> In the context of where we are at the moment, it is not untypical that individuals reach retirement with 50% of their wealth from defined benefit and 50% from defined contribution. That allowance may become more important in time as individuals increasingly have their wealth within defined contribution.[177]

Sarah Pritchard, Executive Director–Markets at the FCA, told us that providers "are not required to signpost the existence of the personal advice allowance" and that if the "Government wished to take a view on the advice allowance […] it would be important to also look at how consumers can be supported in understanding that it exists and who it is available to".[178] The Economic Secretary to the Treasury conceded that "the evidence is that there is not great awareness of that or appetite for" the pensions advice allowance.[179]

87. **The Pension Advice Allowance allows £500 to be withdrawn from a pension up to three times in different tax years for advice. Either because of a lack of awareness or lack of demand the policy is not working. Its design has made it unusable by most**

171 Personal Investment Management and Financial Advice Association (PIMFA) (APS0060)
172 Aon (APS0038)
173 Q128
174 Q12
175 Q13
176 Ibid.
177 Q85
178 Ibid.
179 Q190

savers. We believe that the broad aim of the policy is correct, but it has been poorly executed. ***We recommend a full review and overhaul of the Pensions Advice Allowance (PAA). The Government should:***

a) ***Remove the annual limit on the PAA***

b) ***Uprate the overall PAA in line with inflation each year***

c) ***Encourage MaPS and advisers to signpost the PAA***

d) ***Explore triage options to avoid use of the PAA by those for whom it is poor value, such as many DB savers or those with small pension pots.***

Enhanced guidance and limited advice

88. Advice is a regulated activity giving a personalised recommendation, whereas guidance covers providing general information and signposting resources. We sought views on whether there was something in between, such as enhanced guidance or limited advice, which might be able to bridge the gap between guidance and advice. There is currently no standard definition for either enhanced guidance or limited advice, in the same way as there is for advice and guidance. Generally evidence submissions viewed enhanced guidance as guidance which took greater account of people's personal situation and limited advice as a broad recommendation based on limited information about a person's situation. The Association of British Insurers told us that:

> […] it is important to distinguish between enhanced guidance and limited advice. These concepts are not clearly defined, but the latter is likely to be a regulated activity involving a personal recommendation, which may include recommending a product or provider.[180]

Scottish Widows suggested:

> Enhanced guidance–this would allow more personalisation but would stop short of recommending a single course of action
>
> Restricted advice–this would allow advice on a direct course of action based on some focused customer inputs, but not require a wide ranging investigation into and consideration of the customer's broader circumstances[181]

Royal London, a mutual life, pensions and investment company, told us that the terms "mean different things to different people."[182] For the purpose of this report, we will use the definitions below:

a) Enhanced guidance: guidance on the options available which is tailored to an individual dependent on the information they provide, without a recommendation. This is not a regulated activity.

b) Limited advice: a recommendation made to an individual based on limited or partial information about them.

180 Association of British Insurers (APS0043)
181 Scottish Widows (APS0037)
182 Royal London (APS0016)

89. Overall there was support for enhanced guidance being offered to savers. Laura Myers, Partner and Head of DC at Lane, Clark and Peacock, told us that enhanced guidance could help the cohort of people who cannot afford paid for advice and could protect them from scams.[183] Scottish Widows said the biggest problem faced is the advice gap and that personalised guidance might be a solution.[184] M&G Plc said that "at present, guidance tends to be too close to the 'information' end of the spectrum, when many consumers would benefit from guidance closer to the advice end (a form of 'simplified advice')."[185] The Investing and Savings Alliance told us that the FCA's regulations "act as a deterrent to firms offering personalised guidance services to consumers."[186] The Pensions Management Institute suggested that the FCA "offer a service to advise schemes and providers definitively upon which side of the line a particular proposed form of communication would fall."[187]

90. In the first part of this inquiry which looked at pension scams, we recommended that the Department for Work and Pensions should consider the options available for the Money and Pensions Service to offer enhanced guidance or limited advice, including through technological solutions.[188] In its response the Government said that the recommendation would require changes to primary legislation and that its priority was to make "free-to-access financial guidance available to everyone who needs it."[189]

91. There were a range of views on whether or not the Money and Pensions Service (MaPS) should be able to offer either enhanced guidance or limited advice. Those in favour of MaPS providing some form of limited advice or enhanced guidance acknowledged that it would need more resources to enable it to carry out that role. Those opposed to the idea argued that MaPS would be fulfilling the role of the industry. Standard Life Aberdeen argued that MaPS providing enhanced guidance or limited advice would come at an increased cost funded by advisor levies, which would widen the advice gap as advisers increased their prices.[190] Aegon UK said that MaPS should not provide advice or personalised guidance as an unregulated entity, but that "all regulated firms who wish to should be allowed to offer more personalised guidance."[191] Mark Ormston, Director of Retirement Line, similarly said MaPS should not be able to offer regulated advice, but they should be able to tailor conversations.[192] The union Prospect also said that generic advice delivered through MaPS "would be helpful to bridge the gap between generic information to personalised financial advice."[193] Aon said:

> Enhanced guidance and limited advice is likely to strengthen the image of the service; however, we expect that the "stronger nudge" regulations will encourage a greater take up rate too. We expect that the enhanced service

183 Q55
184 Scottish Widows (APS0037)
185 M&G PLC (APS0039)
186 The Investing and Saving Alliance (APS0011)
187 Pensions Management Institute (APS0030)
188 Work and Pensions Committee, Protecting pension savers—five years on from the pension freedoms: Pension scams, Fifth Report of Session 2019–21, 24 March 2021
189 Work and Pensions Committee, Protecting pension savers–five years on from the pension freedoms: Pension scams: Government, The Pensions Regulator and Financial Conduct Authority Responses to the Committee's Fifth Report of Session 2019–21, Second Special Report of Session 2021–22, 30 June 2021
190 Standard Life Aberdeen (APS0019)
191 Aegon UK (APS0009)
192 Retirement Line Ltd (APS0021)
193 Prospect (APS0008)

> is more likely to better support members with their retirement decisions and extend support to those savers who are not currently receiving support from their employer or their scheme. It will be important also to emphasise the fact that the enhanced guidance service is free to consumers. However, the consequence is that the additional costs of an enhanced service would fall on general levy payers, something that would need careful oversight.[194]

92. AJ Bell said it particularly supported the development of enhanced guidance, which should be available from variety of sources, not solely MaPS. It added that limited advice is likely to require qualifications which MaPS employees do not currently have, increasing the cost of salaries.[195] The Society of Pension Professionals similarly said that "Providers and scheme sponsors will–with some justification–resist levy increases to fund these activities."[196]

93. There was support for MaPS giving guidance on a wider range of issues when people access their pensions. Ferret Information Systems told us that the pension freedoms have had a knock-on effect to benefits and "Expecting a pension saver to understand the consequences of taking different amounts of regular withdrawals in this type of situation, without individual advice or guidance is clearly unrealistic." It suggested that "Pension Wise should be able to offer integrated individual assessments of benefit entitlement and the impact of different types and ranges of pension usage on the situation of the customer, without consideration of actual products"[197] and gave pension credit as an example where Pension Wise could help savers by encouraging take up. Aviva told us:

> Personalised guidance would allow guidance to cover savings more broadly (e.g. recognising many people don't only rely on their pension for their retirement) and allow rules of thumb such as "people like me" to help people better understand, and potentially narrow, their options.[198]

Scottish Widows also said that MaPS "could help with generic rules of thumb on sustainable withdrawal rates, which the industry can then present to customers, without straying into realm of giving investment advice."[199]

94. **The line between advice and guidance is a continuing issue of debate. There is demand for both enhanced guidance and limited advice, but there is reluctance from the industry to operate too close to the advice/guidance boundary and resistance to such services being offered by the Money and Pensions Service, both because of the likely additional cost and regulatory requirements.** ***We recommend that the Financial Conduct Authority uses the definitions below of enhanced guidance and limited advice:***

a) ***Enhanced guidance: guidance on the options available which is tailored to an individual dependent on the information they provide, without a recommendation. This is not a regulated activity.***

b) ***Limited advice: a recommendation made to an individual based on limited or partial information about them.***

194 Aon (APS0038)
195 AJ Bell (APS0050)
196 The Society of Pension Professionals (APS0014)
197 Ferret Information Systems Ltd (APS0017)
198 Aviva (APS0010)
199 Scottish Widows (APS0037)

The Financial Conduct Authority should provide examples to the industry to encourage the wider offering of enhanced guidance and limited advice to the fullest extent allowed by the existing law.

95. ***We recommend that the Money and Pensions Service offers enhanced guidance, under our proposed definition, through its pensions services. We also recommend that the Money and Pensions Service establishes an industry group to develop best practice proposals and templates for offering enhanced pensions guidance.***

The role of schemes and employers

96. There is a widespread belief that both schemes and employers should have a role in supporting savers to make decisions about how they access their pension savings. Matthew Arends, Head of UK Retirement Policy at Aon, said:

> We know from our survey information that 70% of individuals expect their employer to provide support as they approach retirement, so there is definitely an expectation there already among working-age individuals. There is a question as to who should be providing the guidance.[200]

Rachel Vahey, Senior Technical Consultant at AJ Bell, said that:

> Employers should definitely be encouraged and allowed to give guidance on retirement. As we have said, there are many very good examples of them already doing that at the moment. What we need to avoid though is any prescription, and especially unnecessarily high prescription over how they have to do this. There are so many different types of employers and workforces out there that it is dangerous to prescribe too heavily how you have to talk to one particular group of people.[201]

The Pensions and Lifetime Savings Association told us that large employers often provide guidance and support and that it believes "that there is substantial potential for MaPS to improve financial capability by working closely with employers and workplace pension schemes."[202] The Association of Consulting Actuaries said though that, "even in these cases the support can be quite 'scheme / product focused' rather than more holistic guidance and advice."[203] ILC UK, a specialist think tank on the impact of longevity on society, told us that "One way to increase access to financial advice could be for employers to subsidise an initial consultation with a financial adviser as an employee benefit: something that a number of employers already do."[204] The Financial Inclusion Commission warned, however, that "by the time many people come to accessing their retirement savings, they have left, frequently long ago, the employer through whom those savings were arranged, and the pensions consultant or other intermediary appointed by the employer will also have gone."[205]

97. Regulators are making efforts to support employers to provide pensions guidance to their employees. The Pensions Regulator told us that over half of employees are interested

200 Q42
201 Ibid.
202 Pensions and Lifetime Savings Association (ASP0055)
203 Association of Consulting Actuaries (APS0029)
204 ILC UK (APS0033)
205 The Financial Inclusion Commission (APS0018)

in receiving support from their employer about financial issues. Jointly the Pensions Regulator and Financial Conduct Authority produce the 'Guide for employers and trustees on providing support with financial matters without needing to be subject to regulation' which sets out how employers and trustees can provide support by providing factual information and signposting to guidance and advice without inadvertently crossing into a regulated activity. The FCA said:

> Employers can also be a valuable source of guidance to consumers. They can help consumers with their workplace scheme, wider retirement planning, and other financial matters. There are limitations to this set out in law, as advice can only be provided through a regulated entity, and equally investment in FCA regulated products can only be arranged by someone with appropriate permissions. […] Only a small proportion of consumers have access to advice, and in the absence of advice, greater availability of guidance will help consumers make better choices.[206]

98. There is consensus that, alongside employers, schemes should play a greater role in supporting pensions savers. The Association of British Insurers told us that:

> Providers have a key role to play in supporting customers to choose retirement options through information and guidance. Even with a fully effective advice market and a well used Pension Wise guidance service, providers are often the first port of call and always a necessary step to accessing a pension and will have information about a customer's pension benefits with that provider immediately to hand.[207]

AJ Bell told us:

> Whilst we understand the concerns of some commentators that provider support has historically been associated with a sales/business retention led agenda, we don't accept that this is the current situation, and believe most providers are already providing non-sales-driven support of a high quality to their customers. Rather than discouraging the provision of support in this manner because of a perception that historic issues will be repeated, we believe in encouraging the provision of this support alongside regulated advice and Pension Wise.[208]

The Financial Inclusion Commission told us that it did not believe that schemes were communicating effectively and that "this can be seen more by looking at how members are behaving, than by trying to assess the effectiveness of communication by examining the material produced for them or the efforts put into trying to communicate."[209]

99. Pension schemes have differing legal and regulatory requirements about how they communicate with their members depending on whether they are trust-based or contract-based. The governance of trust-based schemes is regulated by The Pensions Regulator

206 The Financial Conduct Authority (APS0061)
207 Association of British Insurers (APS0043)
208 AJ Bell (APS0050)
209 The Financial Inclusion Commission (APS0018)

whereas the governance of contract-based schemes is regulated by the Financial Conduct Authority. The Department for Work and Pensions told us that it does not believe that trust-based schemes are communicating as effectively as they could, it said to address this:

> DWP intend to consult on changing the requirements for occupational pension schemes to make them more similar to FCA requirements and improve the effectiveness of scheme communications. This change would mean occupational pensions schemes will need to issue to members, at age 50 and every 5 years thereafter, a single page summary of their scheme. This will point out that the saver may be able to make choices about how to use their pensions savings in a reasonably short period of time, and that they should start to think about these choices. A further set of generic risk warnings will also be included. This will mirror FCA requirements.[210]

100. **Pension savers will often look first to their scheme or employer for support when making decisions about their pension savings. Schemes and employers should play an active role in providing guidance and signposting advice to their members and employees. Many large schemes and employers already do this.** ***We recommend that the Pensions Regulator, Financial Conduct Authority and Money and Pensions Service produce a plan to increase the number of schemes and employers using the tools they provide. As far as is possible they should aim for consistency across trust-based and contract-based pension savings. The plan should stress the importance of scheme members shopping around before deciding to buy a new product from their incumbent provider.***

Digital guidance

101. We heard that digital guidance and other tools might bridge the gap between advice and guidance or provide a more practical and engaging alternative. People are already using digital tools to engage with decision making around pensions. Between July and September 2021, the Money and Pensions Service provided pensions guidance to 39,279 customers. Of these 9,564 were supported through webchat and 113 through virtual appointments. In the same quarter the Money and Pensions Service's virtual tools[211] were used 119,522 times.[212] First Actuarial told us it would like to see the Money and Pensions Service "develop more online tools (such as robo-advice and modellers) as people do need further help and to have the messages repeated."[213]

102. Digital guidance may be cheaper to provide than "analogue" alternatives. Aviva told us:

> Simplified advice, would help counter the "affordable advice gap" by providing access to advice at a lower cost than full advice. […] we believe that fact finding requirements should be lowered so that only facts relevant to the advice being given are required, liability and redress should be limited

210 Department for Work and Pensions (APS0035)

211 These include Pension Calculator, Workplace Pensions Contribution Calculator, Annuities Calculator and Drawdown Calculator.

212 Money and Pensions Service, Dashboard: MoneyHelper Pensions Guidance Service, accessed 14 December 2021

213 First Actuarial LLP (APS0036)

> to the facts gathered (though not free of liability), and it should be able to be provided through digital channels, with support from a more junior level of adviser.[214]

A subsidiary of Barnett Waddingham LLP similarly told us that "Limited advice, delivered via 'Robo-channels' should be more cost-effective for customers with lower investable assets, who are looking for straightforward pension planning."[215] Money Alive, a regtech firm, told us that "Using evidenced interactive video engagement, MaPS and product providers could communicate pension freedoms options more efficiently and effectively to members."[216]

103. **Most guidance is currently delivered by individuals, which is costly, or through written communication, which is unengaging. In future we envisage a significant proportion of guidance or triage services will be delivered through digital tools. *This should be a key consideration in the implementation of the recommendations we have made to regulators and the Money and Pensions Service.***

214 Aviva (APS0010)

215 BW SIPP LLP (APS0056)

216 Money Alive Limited (APS0032)

4 Pensions dashboards

104. A pensions dashboard is a digital platform where an individual can see all of their pensions from multiple providers in one place. The Government has said that it wants to see multiple industry dashboards, alongside a non-commercial dashboard hosted by the Money and Pensions Service (MaPS). MaPS has been given responsibility for the first stages of implementing dashboards, including:

a) convening and overseeing an independent steering group; and

b) creating a non-commercial dashboard.

The Pensions Dashboard Programme is accountable to MaPS and responsible for designing and implementing the infrastructure for pensions dashboards.

105. There is a consensus that fully operational dashboards will improve engagement with pension savings. Chris Curry, Principal Officer of the Pensions Dashboard Programme team, told us that while dashboards will not provide advice and guidance they will have a role to play in the process.[217] Regulators have expressed positive views on the impact that pensions dashboards will have on decision making by pension savers. The FCA told us that dashboards:

> […] will provide a complete picture of the consumer's pension entitlement. We expect dashboard usage to prompt some consumers to seek out guidance and/or regulated financial advice, and it should also make it more feasible for a range of providers to give holistic guidance or advice.[218]

The Pensions Regulator similarly told us that:

> Pensions dashboards will play a key role in highlighting the benefits of workplace pensions, especially to those saving towards their later life for the first time as a result of [auto-enrolment]. Being able to view all their pension savings in one place will help savers plan for the future and take action, if, for example, they are not saving enough for the later life they want.[219]

In particular, the non-commercial dashboard provided by MaPS was seen as a way to increase engagement with MaPS guidance provision through Pension Wise and MoneyHelper. The master trust Smart Pension said that the non-commercial dashboard:

> […] provides a great opportunity for MAPS to engage more widely and use the platform of the dashboard to get more people into guidance and to share information. The more tailored (eg by age) this information is, the more effective and engaging it will be and the MAPS dashboard will certainly have the opportunity to get people the help and support they need[220]

106. There have previously been concerns raised about the timetable for delivery of the dashboards. Chris Curry, Principal Officer of the Pensions Dashboard Programme team,

217 Q135
218 Financial Conduct Authority (APS0061)
219 The Pensions Regulator (APS0044)
220 Smart Pension (APS0048)

told us that the focus would be on bringing in the largest pension schemes "throughout 2023 and early 2024".[221] Tess Page, Chair of DC Committee at the Association of Consulting Actuaries, told us that:

> I feel more optimistic about dashboards than I have done for the number of years we have been talking about them. With dashboards we should not let perfection be the enemy of good. There has been a lot of debate about whether we should wait until we have everything, every single pension scheme can get on there and provide exactly the same information. I think just getting the architecture up and running, getting the framework together and facilitating that data sharing between provider and dashboard is critical.[222]

Similarly, Joe Dabrowski, Deputy Director Policy at the PLSA, indicated that a longer timetable was more likely, saying: "For the public information it feels like 2023 to 2025 is a realistic period for onboarding schemes and there may be some sense of staging".[223] The Financial Inclusion Commission was more cautious and said that "The project is still years from completion, so will not be available in time to help any of the 1.2 million people who will access pension benefits for the first time in the next two years."[224]

107. There has been a debate about whether people should be able to move their pension pots to a different scheme or provider using pension dashboards. Savers might want to move their pots to search for a better deal or consolidate their savings by combining smaller pots together. Chris Curry, Principal Officer of the Pensions Dashboard Programme team, warned that the dashboard is a "big opportunity and it comes with a risk attached to it", explaining that dashboards are likely to become a target for scams[225] and that he did not think that dashboards are the right mechanism for consolidation. St James's Place told us:

> For the avoidance of doubt pensions dashboards are not currently intended to be a mechanism through which people can withdraw their pension benefits. We think this is the right approach given the potential for people to withdraw funds without sufficient planning should provide information only, it should not be a mechanism to access money. The risks of people not engaging properly and simply spending retirement funds without understanding the implications this could have on their long-term financial well-being are too great.[226]

The Minister for Pensions and Financial Inclusion was more open to proposals for transactions taking place through dashboards in the "longer term".[227] He told us:

> Ultimately the principle of empowering people, so they have a better understanding of what they have, taking pensions and doing exactly what we have done with banking and putting it into a banking app or savings, which is now in a savings app, then ideally having a pensions app, you could

221 Q134
222 Q30
223 Ibid.
224 The Financial Inclusion Commission (APS0018)
225 Q136
226 St. James's Place (APS0013)
227 Q225

> take the Tube or the bus to work, be able to move your money between those and then run your life in a much better way and be way better informed, is surely a good thing.[228]

108. The number of very small defined contribution pension pots has increased since the introduction of auto-enrolment, as many employees yet to build larger pots move jobs and open a new pot with the new employer. In our call for evidence, we were interested to know whether behavioural change—perhaps encouraged through pensions dashboards—could address this issue. The overwhelming response was that it could not. The Investing and Saving Alliance told us that "theoretically" the problem could be solved, but it was not "a realistic outcome currently."[229] The Financial Services Consumer Panel said:

> Behavioural responses are not an adequate or appropriate response to the problem of small pots. The causes of small pots are not generally behavioural–they are labour-market driven, and a consequence of the (highly desirable) link of pension to employer.[230]

The Department for Work and Pensions established a working group to look at the problem of small pension pots. That group reported in December 2020 and concluded that issues around small pension pots could not be solved through behavioural changes by savers. It concluded instead that an automatic switching solution would be required.[231] The Department said that the Pensions and Lifetime Savings Association and Association of British Insurers have convened an industry co-ordination group to take this work forward.[232]

109. **Pensions dashboards will let people see all of their pensions on a digital platform. This has the potential to be the most influential policy in helping people take good decisions when they first access their pension pots. To be successful, pension dashboards will need correct and up to date data from every pension scheme. This is a huge undertaking. It is vital that the pension dashboards programme continues to be properly resourced to get the implementation of dashboards right. Too often pension policies have been undermined by bad data.**

110. **When pension dashboards launch it will not be possible to undertake any transactions through them. We understand why some people are calling for transactions to be facilitated through pension dashboards.** ***However, with dashboards a long way from reality and a need to build trust in the system, we recommend that no consideration is given to allowing transactions through dashboards until they are well established.***

111. **Many savers will have built up a number of small pension pots, which would benefit from consolidation. However, the issue of small pension pots cannot be solved simply by encouraging savers to change their behaviour to proactively consolidate their small pension pots. The Committee would expect to look closely at the**

228 Q227
229 The Investing and Saving Alliance (APS0011)
230 Financial Services Consumer Panel (APS0031)
231 Department for Work and Pensions (APS0035)
232 Ibid.

recommendations about consolidating small pension pots which are expected to be made to the Department for Work and Pensions by an industry working group as they are developed and published.

112. **Pensions dashboards will change how people engage with their pension savings. Dashboards will also provide an important additional tool which can be used by those providing guidance or advice to savers.** ***We recommend that the Money and Pensions Service should develop a guidance service—possibly a future iteration of Pension Wise or the midlife MOT—which supports savers by using the data available through their pensions dashboards. It is important that these services are considered now, before dashboards are launched.***

5 Supporting decision-making before accessing pension savings

Simpler annual pension statement

113. One of the Department for Work and Pensions' key measures to simplify pensions for savers is the simpler annual pension statement. The Department published draft regulations and statutory guidance on simple annual pension benefit statements on 19 October 2021, for them to be introduced in October 2022.[233] The simpler statement is a two-page template developed by the industry which has been in voluntary use since 2018. The statement must show information for the member to easily understand:

- how much money the member has in their pension plan and what has been saved in the statement year;
- how much money they could have when they retire; and
- what they could do to give themselves more money at retirement.[234]

Aegon UK told us that the simpler annual pension statements will "bring more consistency across the pension industry" that will "Hopefully […] go some way to improving member engagement and understanding."[235]

114. The Minister for Pensions and Financial Inclusion told us that the simple statement "particularly matters because people will have lots of different pots" and that:

> It is important that your statement should look the same, whether you have it with X company or Y company, so that at the very least you do not have to interpret lots of different statements continuously. However good the present statements are, if they are all done in a different way individuals are going to struggle going forward.[236]

We asked the Minister for Pensions and Financial Inclusion if the simpler statement is a temporary or transitional solution which will eventually be replaced by pensions dashboards. He told us that he believes both will be around for a "considerable period", though acknowledged in "10 to 20 years' time" paper may become "a thing of the past".[237]

115. **The simpler annual pension statement will require schemes to show information to members in a consistent way across the industry. We welcome the simpler annual pension statement and believe it will be particularly beneficial to people with many pension pots.**

233 Department for Work and Pensions, Government response: Simpler annual pension benefit statements, 19 October 2021
234 Ibid.
235 Aegon UK (APS0009)
236 Q179
237 Q182

Pension statement season

116. The Government has committed to legislating to introduce a pension statement season. A pension statement season would be a short period each year during which schemes were required to send savers annual pension statements. At a speech on 11 March 2021 the Minister for Pensions and Financial Inclusion explained that:

> […] my ambition is genuinely to create a national conversation about the importance of pension saving, turning up the dial on engagement in a way that, frankly has not been done. And you may have heard me say that my holy grail and all this is I want people to be walking into a pub, during the statement season, grasping their statement and saying, 'well, I've got mine, what have you got?'[238]

117. There has been criticism from the industry to the proposal for a pension statement season. PensionBee, an online pension manager, published a blog post which said that 10.6 million savers could be at risk from fraudsters targeting misdelivered statements if the proposal went ahead. PensionBee's CEO, Romi Savova, said "While the Pensions Minister's plans are well intentioned, little thought has been given to the grave risks this could pose to savers."[239] A blog post by the People's Pension, one of the UK's largest master trusts, said that there will be increased costs and there would be an impact on customer service as contacts are concentrated into a short window.[240] Sir Steve Webb, a former Pensions Minister, said on Twitter:

> Pension statement season = an analogue solution in a digital world - which wouldn't even achieve much in an analogue world.[241]

118. The Department acknowledged in response to its initial consultation on simpler annual statements in 2020 that "whilst some respondents were attracted to the idea, others highlighted a number of issues including operational and transitional challenges, and whether this approach would clash with the trend to greater personalisation of communications."[242] In August 2021 the Minister for Pensions and Financial Inclusion set up a working group to develop an approach to a statement season. He accepted that a statement season is controversial, but explained to us why he was in favour:

> […] in reality you should do what we already do with tax, exams, A-levels, university and a whole bunch of strategic decisions that occur in all of our lives, and have an annual period—there is an argument over how long; it clearly can't be a week, it has to be a month or so—when you receive your statement. The reason that matters, in my humble opinion, is that you will then be able to consider all the statements, you have the information before you and then engage—and we are going to have discussions about advice and guidance going forward—with an [independent financial adviser] or the particular process that you want and have better understanding.

238 Department for Work and Pensions, Minister for Pensions Guy Opperman's keynote speech to the PLSA, 11 March 2021

239 PensionBee, DWP's pension 'statement season' proposals could put over 10m Brits at risk of mail fraud, 25 November 2021.

240 The People's Pension, Why a pension statement season might negatively impact engagement with savers, 1 November 2021

241 Sir Steve Webb, @stevewebb1, [Twitter], 12 October 2021

242 Department for Work and Pensions, Government response: Simpler annual benefit statements, 19 October 2020

> The holy grail is that I would like it to be the case where people meet in a pub or other sort of establishment and say, "I have my statement. Do you understand yours?" and have a discussion about it and it becomes a thing.[243]

The Minister cited the orange letter used in Scandinavia as a precedent for the proposal of a statement season. In Sweden people receive an annual pension statement, in an orange envelope, each year from the Swedish Pensions Agency, showing an overview of savers national public pension. The orange envelope can either be received by paper or through a digital mailbox.[244]

119. **A pension statement season would be a short period each year when schemes were required to send savers annual pension statements. We are not convinced that the gains from a statement season will justify the complexity of introducing it. In our view, the measure is at best a stopgap until pension dashboards are available.** ***Given the likely cost and disruption to the industry, we recommend that the Government be prepared to adapt or drop its proposal for a pension statement season if the benefits cannot be robustly demonstrated.***

Midlife MOT

120. The midlife MOT is free online support to encourage people in their 40s, 50s and 60s to do more active planning in the key areas of work, wellbeing and money. It is aimed at both employees and employers and can help people to make choices that will ensure the future retirement they want. In March 2021, the Department for Work and Pensions announced that £400,000 of funding was being given to ten organisations to develop and trial locally-led MOTs.[245] A number of employers are piloting midlife MOTs, including Aviva and the Department for Work and Pensions itself. Aviva described its midlife MOT to us:

> Designed for people aged between 45–60, Mid-Life MOTs, in which people are guided through their work, wealth and wellbeing needs, have been found to play an important role in helping people plan for their retirement. Aviva has been pioneering the development of Mid-Life MOTs with our staff, customers and the wider public and have found significant demand. In 2020 we reached 40,000 people with our MOT and expect to reach a similar number of 2021. Our MOT app, which guides people through 30 multiple choice questions around work, wealth and wellbeing and gives them suggested actions across each area has had over 15,000 downloads since its launch last October.[246]

121. There is support for intervention before someone is able to access their pension and may already have decided the course of action they are going to take. The Money and

243 Q180
244 Swedish Pensions Agency, Orange envelope - annual statement for your national public pension, accessed 6 December 2021
245 Black Country, Coventry and Warwickshire and Greater Birmingham and Solihull (combined application), Heart of the South West, Humber, North East, New Anglia (Norfolk and Suffolk), Worcestershire, Cornwall and the Isles of Scilly, Cambridge and Peterborough, Dorset, and Greater Manchester.
246 Aviva (APS0010)

Pensions Service could provide an active role in providing the midlife MOT. MoneyHelper, the consumer facing brand of the Money and Pensions Service, offers a Midlife Pension Review for self-employed people. An appointment with a specialist covers:

a) Pension options available

b) What to think and ask about

c) Work, health, family and money

d) Next steps and signposting to helpful organisations

Hargreaves Lansdown told us that "Money and Pensions Service should not only support people accessing pensions for the first time, but also at other key moments. […] This could include a mid-life financial MOT."[247] The Financial Inclusion Commission told us that:

> It has always proved difficult to convince those who bear the cost, via industry levies, to support generic efforts to improve engagement, despite the likelihood that a more engaged and active membership would save more, and some clear evidence that such promotion can make a crucial difference. A more engaged and aware population would also be less exposed to the risk posed by the increasing and worrying number of scams.[248]

David Fairs, Executive Director at the Pensions Regulator, told us that:

> Individuals may benefit from a midlife MOT check to make sure that they are on track with their aspirations for the income they want when they want to retire and if not they can adjust their savings to do that. I think there is value in an interaction earlier in life, a midlife MOT, for individuals to understand whether they are on track. The decision that they may make five, 10, 15, 20 years later on how they access their pensions and in what way might be too early at 50 to focus on those sorts of considerations, but I think that understanding whether you are on track for your retirement is worthwhile early. Pension Wise has a specific scope and whether that is the right vehicle to do that at 50 or whether an interaction with the Money and Pensions Service, more broadly The Pensions Advisory Service, rather than Pension Wise might be more appropriate.[249]

122. As well as the midlife MOT, there is support for a similar intervention after a person has accessed their pension, given that the pension freedoms often means they are able to change their pension products in decumulation. The Association of British Insurers recommended:

> A new service, similar to Pension Wise, but targeted at people who have already started accessing a pension and focused on preparing for later life; this would also include guidance on topics such as planning for social care costs and powers of attorney. Accessing the State Pension, or an age of 70

247 Hargreaves Lansdown (APS0059)
248 The Financial Inclusion Commission (APS0018)
249 Q93

> or 75 could be used as triggers to access the service. It would be developed by MaPS but other organisations could be accredited to deliver some or all of it.[250]

Mark Ormston, Director of the annuity intermediary Retirement Line, similarly said:

> We are due to see the introduction of 'mid-life MOTs' and there is a lot of focus on the use of regulated advice and/or Pension Wise guidance at the point of 'first-time access', which is completely understandable. However, what happens to consumers after they have made an initial decision? Should there not be some kind of pension income, later life MOT?[251]

123. The Minister for Pensions and Financial Inclusion explained that there are difficulties in encouraging adoption of the midlife MOT:

> It is very difficult because trying to take what is a good idea at DWP and then persuading private sector providers to trial this, and the Civil Service have trialled an online version, how do you get this applied across the country in a scalable form, and paid for, whether it is by a tax rebate to the individual companies who provide it, or whether this is something that is paid for out of a salary or whatever, or it is an HR benefit? That is complicated stuff, but at the moment that is what we are trying to encourage people to do and we are formulating policy as we do it.[252]

124. **The midlife MOT is free support for people in their 40s, 50s and 60s to make plans about work, wellbeing and money. We welcome the principle of a midlife MOT, but believe that the policy is not yet providing the support envisaged for most savers.** ***For the "my money" part of the midlife MOT, we recommend that the Department for Work and Pensions, supported by the Money and Pensions Service, undertakes research to:***

a) ***Develop the most effective format(s) for midlife MOTs;***

b) ***Establish the most efficient delivery route for midlife MOTs; and***

c) ***Maximise the take up of the midlife MOT.***

250 Association of British Insurers (APS0043)
251 Retirement Line Ltd (APS0021)
252 Q195

6 Wider government policy

Normal minimum pensions age

125. During the course of our inquiry, several organisations wrote to us about the proposed implementation of the increase in the normal minimum pension age (NMPA) from 55 to 57. The NMPA is the minimum age at which most pension savers can access their pensions without incurring an unauthorised payments tax charge unless they are retiring due to ill-health. The NMPA has been 55 since April 2010 when it was increased from 50. The NMPA was not a focus of our inquiry, but the concerns raised with us highlighted the wider challenge of an increasingly complex pensions landscape.

126. The Government will increase the NMPA from 55 to 57 in 2028. The Government indicated that some schemes would be able to retain a NMPA of 55 for their members if this was part of the scheme rules on 11 February 2021. If the scheme states explicitly that the age a member can access their pension is 55 then any member of the scheme will retain that right. However, if a scheme used the term "Normal Minimum Pension Age" any member of that scheme would lose that right. The Government initially proposed allowing people to change to a scheme with a protected age until April 2023. Following concerns that this would lead to confusion and many people transferring pensions to secure a protected age of 55, the Economic Secretary to the Treasury announced on 4 November 2021 that the window to transfer had closed the day before at 23:59 on 3 November 2021.

127. We were warned by the Association of British Insurers and others of the problems this policy would cause, including:

> Bake in complexity for decades to come, making any general communication on accessing pensions much more difficult and leading to widespread confusion about what constitutes a 'normal' pension age. This will go against joint efforts by government and the industry to simplify the experience people have with their pension journey.
>
> Risk poor outcomes for many customers, most fundamentally because scammers could exploit this situation.
>
> Create market distortions and further risks to consumers by creating perverse incentives for customers to seek out a pension age of 55 elsewhere, for advisers to recommend products with an age of 55, and for pension providers to repurpose and market those products.
>
> Conflict with other policy priorities, especially DC consolidation and small pots, since a transfer may not necessarily be in a customer's interests if they have a pension age of 55, because the amount transferred would be ring-fenced and the customer could no longer add to it.

> Pose technical challenges and legal uncertainty, which could last for decades and create significant unnecessary costs, for the public bodies (HMRC, the Financial Ombudsman Service and The Pensions Ombudsman) which will need to handle queries, as well as the wider industry.[253]

The Economic Secretary to the Treasury told us that:

> The key consideration that we had to look at was whether we should overwhelm the right of all pension schemes to give that early access. We decided that we could not do that because those were rights that people had had so we could not overwhelm those rights, those pre-existing rights.[254]

128. **We support the Government's intention to make pensions simpler. Recent policy changes to the normal minimum pension age have highlighted the difficulties of achieving this and we are disappointed that these changes have made making decisions about accessing pensions even more difficult. Savers take a working lifetime to build up pension savings, through many changes of policy and government.** ***We urge the Government to do everything in its power to ensure that future changes do not bake additional complexity into the system for decades to come. Where additional complexity is inescapable, we recommend that any Government consults early, thoroughly and aims to achieve cross-party consensus.***

Assessing success

129. The Government, both regulators—the Pensions Regulator and the Financial Conduct Authority—and the Money and Pensions Service are all working at different speeds on different interventions to support pension savers make decisions using the pension freedoms. Each of these organisations is working at its own speed in its own area, although there are concerted efforts to improve co-ordination. Evaluation of the success of the pension freedoms is dispersed across a range of regular, annual and ad hoc publications, with no single regular overview.

130. Shortly after the pension freedoms were introduced, in 2015, one of our predecessor Committees said that the Government should detail its approach to assessing the long-term effects of the reforms.[255] Our immediate predecessor Committee recommended in 2018 that the Government set out its long-term objectives for the pension freedoms and how it will monitor and report on the performance outcomes against those objectives.[256] In 2019, it recommended that the Department for Work and Pensions publishes an annual report on pension freedoms and the guidance guarantee.[257] The Government did not accept these recommendations.[258]

253 Association of British Insurers (APS0043)
254 Q234
255 Work and Pensions Committee, Pensions freedom guidance and advice, First Report of Session 2015–16, 14 October 2015, para 16
256 Work and Pensions Committee, Pensions freedoms, Ninth Report of the Session 2017–19, 28 March 2018, pp 8–9
257 Work and Pensions Committee, Pension costs and transparency, Twenty-Ninth Report of the Session 2017–19, 24 July 2019, para 127
258 Work and Pensions Committee, Pension costs and transparency: Government and Financial Conduct Authority Responses to the Committee's Twenty-Ninth Report of Session 2017–19, Second Special Report of Session 2019, 30 October 2019

131. **The Government, regulators and the Money and Pensions Service are introducing multiple policy interventions to support the pension freedoms. Six years on there remains no framework against which to evaluate the success of the freedoms or make judgements about the need for—or effectiveness of—support interventions. Our predecessor Committees have asked three times for the Government to improve its monitoring and reporting on the progress of the pension freedoms.** ***We recommend that the Department for Work and Pensions and the Treasury jointly produce an annual assessment evaluating these measures holistically. We would expect several of the recommendations we have made in this report to appear in that publication, including: usage of Pension Wise and paid for advice, the progress of reviews and research being undertaken by regulators, the state of policy development by the Government, and the support available to individuals and schemes.***

Conclusions and recommendations

Introduction

1. The pension freedoms gave people the freedom to choose what to do with their money. On balance these changes have been a success and we do not want to see them rolled back. However, many savers need more support than they currently receive in order to make good decisions about how they access their pension savings. (Paragraph 7)

2. Making pensions decisions is complicated. The continued movement from DB to DC, together with auto-enrolment and the increased number of jobs that one person will have over a working lifetime, mean that without intervention decision-making will become more complicated still. The Government and regulators have a role to play in ensuring that savers have the information and support they need to make good decisions about what they do with their pension savings. *We recommend that the Government and regulators should play a more active role than they did when the pension freedoms were first introduced.* (Paragraph 8)

3. The Minister for Pensions told us that the Department for Work and Pensions is trying to make pensions simpler. We support this principle. But simplicity alone is not enough to improve outcomes for savers. The Government and regulators will either need to increase saver engagement—encouraging and enabling savers to make their own decisions—or take a more interventionist approach with passive savers to ensure that they do not default to a decision against their best interest. (Paragraph 12)

Options when accessing pensions

4. People can usually take up to 25% of their pension as a tax-free lump sum. This is one of the most well-known UK pension policies and leads to many people who access their pensions for the first time taking poor decisions about the remaining 75%. We heard persuasive arguments both for and against decoupling the 25% of a pension pot which is tax free from the rest of the pot. The best way to assess these arguments is through further research and testing. *We recommend that regulators should carry out a scoping exercise to establish the research and testing which could be undertaken on decoupling the 25% of a pension pot which is tax free from the rest of the pot and present their findings to our Committee.* (Paragraph 19)

5. We were told that most savers want a reliable income in retirement. Annuities provide this for savers with defined contribution pensions, but have dramatically fallen in use since the introduction of pension freedoms. The transition from defined benefit schemes to defined contribution schemes means that fewer people will have occupational pensions which provide a guaranteed income in future and therefore we expect there to continue to be a demand for annuities or annuity-like products. (Paragraph 32)

6. Many more people than currently do, however, would benefit from making greater use of the pension freedoms by choosing a mix of annuities, lump sums and drawdown

rather than a single product. For example, a person may wish to withdraw a lump sum when they first access their pension, later choose to use drawdown flexibly before finally choosing an annuity in later life. (Paragraph 33)

7. Hybrid products which provide a ready-made mix of lump-sums, drawdown and annuities can be complicated and costly. We believe that a personalised mix of retirement products would better meet the needs of savers. However, these options will be difficult for savers to choose themselves without thorough guidance and most savers would likely need paid-for advice, which gives a personalised recommendation, to choose a suitable mix of products. (Paragraph 34)

8. *We recommend that the Money and Pensions Service and the Financial Conduct Authority should develop proposals to increase the number of people choosing a mix of retirement products—including cash, drawdown and deferred annuities—to meet their changing needs at different stages of later life.* (Paragraph 35)

9. The Pension Schemes Act 2021 enabled collective defined contribution (CDC) schemes, which provide retirement incomes from a collective fund. The income from the fund received by members varies depending on how the fund performs. There is demand for the further development of CDC schemes in future and it is therefore right that the Government continues to support this. We welcome the Government's intention to start consultations on master trust and multi-employer CDC schemes later this year. (Paragraph 50)

10. The Royal Mail CDC scheme is likely to be the first of its kind under the Pension Schemes Act 2021. We anticipate other employers and organisations will want to learn from this scheme. We recommend that the Government publishes a framework for assessing the success of this and other early schemes. (Paragraph 51)

11. *We recommend that the Pensions Regulator works with the Royal Mail to develop a toolkit for other employers looking to set up similar schemes.* (Paragraph 52)

12. For CDC schemes to provide a realistic alternative to annuities, people with defined contribution pension pots need the option to be able to transfer to decumulation-only CDC schemes. In future these may be available through master-trusts regulated by the Pensions Regulator. *We recommend that the Financial Conduct Authority consider whether there is also a case for developing contract-based CDC schemes and publish its findings.* (Paragraph 53)

Supporting decision making at the point of access

13. Measures are in place for contract-based schemes to offer investment pathways, but equivalent measures are some way off for trust-based schemes and their final form may differ. This is not an isolated case of different measures being in place for contract-based and trust-based schemes without a clear rationale. We are disappointed that yet again the two pension regulators dealing with savers in near identical positions have failed to coordinate their work resulting in unnecessary risk for members of trust-based schemes and the pension landscape being more confusing than necessary. *We recommend that all consultations covering pension*

regulation should be run jointly by the Pensions Regulator and the Financial Conduct Authority unless there is a clear and published reason for a different approach. (Paragraph 61)

14. The Department for Work and Pensions and the Pensions Regulator are developing proposals for equivalent measures to investment pathways for trust-based schemes. *We recommend that investment pathways should have the same form for contract-based and trust-based schemes.* (Paragraph 62)

15. There is a charge cap for savers who default to a scheme through auto-enrolment. *We recommend that there should be a similar charge cap for non-advised savers choosing a decumulation product through investment pathways. The Financial Conduct Authority should report on this as part of its upcoming review on investment pathways.* (Paragraph 63)

16. Pension Wise is a well-regarded but under-utilised service. The pension freedoms will be seen as a failure if savers make poor decisions without receiving the guidance they were promised when the freedoms were introduced. The Minister for Pensions and Financial Inclusion's previous agreement that having a Pension Wise appointment should be "the norm" was welcome, but he has since distanced himself from this view. Neither the Minister nor regulators would tell us what they thought the usage levels of Pension Wise should be. It is clearly unrealistic to expect Pension Wise usage to be universal—some people will already have taken paid-for advice or had an earlier appointment for guidance—but that should not be a barrier to setting a stretching target for increasing take up. *We recommend that the Government sets a goal for the Money and Pensions Service for the combined use of Pension Wise and paid-for advice when accessing pension pots for the first time. This goal should be at least 60 per cent and expressed in terms of individuals rather than pots. It could include an exemption for smaller levels of saving.* (Paragraph 74)

17. The "stronger nudges" towards guidance being proposed by the Department for Work and Pensions and the Financial Conduct Authority will not be enough to make receiving pensions guidance the norm. The Money and Pensions Service told us that it would support a trial of automatic Pension Wise appointments and we can see no clear barrier to doing this. The Minister for Pensions and Financial Inclusion has expressed reservations about introducing automatic appointments—but those could be tested by a trial. *We recommend that automatic Pension Wise appointments are trialled. The Government should initiate two trials: one with an appointment when a person accesses their pension for the first time and another at the age of 50, before they can access their pension savings.* (Paragraph 75)

18. Many savers have multiple pension pots with different providers and schemes. At the moment, it is not possible for providers and regulators to aggregate data on individual savers, rather than individual pension pots. This makes it more difficult to ensure that savers are getting the advice they need. *We recommend that aggregating and individual savers, rather than pots, becomes a key priority for the FCA, the Pensions Regulator and the Department for Work and Pensions. As a matter of urgency, so as not to delay the programme, the Department for Work and Pensions should work with the Pensions Dashboard Programme to establish whether pensions dashboards may be a route for doing this.* (Paragraph 76)

19. Advice is a personalised recommendation that can only be provided by a regulated firm at a cost. Few people seem to be willing to pay for financial advice for the decisions they make about their pension savings—even though doing so could significantly improve their financial situation. More people would benefit from regulated advice before accessing their pensions than currently use it. *We recommend that the Government should report annually on progress and plans to increase the uptake of pensions advice.* (Paragraph 81)

20. The Pension Advice Allowance allows £500 to be withdrawn from a pension up to three times in different tax years for advice. Either because of a lack of awareness or lack of demand the policy is not working. Its design has made it unusable by most savers. We believe that the broad aim of the policy is correct, but it has been poorly executed. *We recommend a full review and overhaul of the Pensions Advice Allowance (PAA). The Government should:*

    a) *Remove the annual limit on the PAA*

    b) *Uprate the overall PAA in line with inflation each year*

    c) *Encourage MaPS and advisers to signpost the PAA*

    d) *Explore triage options to avoid use of the PAA by those for whom it is poor value, such as many DB savers or those with small pension pots.* (Paragraph 87)

21. The line between advice and guidance is a continuing issue of debate. There is demand for both enhanced guidance and limited advice, but there is reluctance from the industry to operate too close to the advice/guidance boundary and resistance to such services being offered by the Money and Pensions Service, both because of the likely additional cost and regulatory requirements. *We recommend that the Financial Conduct Authority uses the definitions below of enhanced guidance and limited advice:*

    a) *Enhanced guidance: guidance on the options available which is tailored to an individual dependent on the information they provide, without a recommendation. This is not a regulated activity.*

    b) *Limited advice: a recommendation made to an individual based on limited or partial information about them.*

    The Financial Conduct Authority should provide examples to the industry to encourage the wider offering of enhanced guidance and limited advice to the fullest extent allowed by the existing law. (Paragraph 94)

22. *We recommend that the Money and Pensions Service offers enhanced guidance, under our proposed definition, through its pensions services. We also recommend that the Money and Pensions Service establishes an industry group to develop best practice proposals and templates for offering enhanced pensions guidance.* (Paragraph 95)

23. Pension savers will often look first to their scheme or employer for support when making decisions about their pension savings. Schemes and employers should play an active role in providing guidance and signposting advice to their members and employees. Many large schemes and employers already do this. *We recommend*

that the Pensions Regulator, Financial Conduct Authority and Money and Pensions Service produce a plan to increase the number of schemes and employers using the tools they provide. As far as is possible they should aim for consistency across trust-based and contract-based pension savings. The plan should stress the importance of scheme members shopping around before deciding to buy a new product from their incumbent provider. (Paragraph 100)

24. Most guidance is currently delivered by individuals, which is costly, or through written communication, which is unengaging. In future we envisage a significant proportion of guidance or triage services will be delivered through digital tools. *This should be a key consideration in the implementation of the recommendations we have made to regulators and the Money and Pensions Service.* (Paragraph 103)

Pensions dashboard

25. Pensions dashboards will let people see all of their pensions on a digital platform. This has the potential to be the most influential policy in helping people take good decisions when they first access their pension pots. To be successful, pension dashboards will need correct and up to date data from every pension scheme. This is a huge undertaking. It is vital that the pension dashboards programme continues to be properly resourced to get the implementation of dashboards right. Too often pension policies have been undermined by bad data. (Paragraph 109)

26. When pension dashboards launch it will not be possible to undertake any transactions through them. We understand why some people are calling for transactions to be facilitated through pension dashboards. *However, with dashboards a long way from reality and a need to build trust in the system, we recommend that no consideration is given to allowing transactions through dashboards until they are well established.* (Paragraph 110)

27. Many savers will have built up a number of small pension pots, which would benefit from consolidation. However, the issue of small pension pots cannot be solved simply by encouraging savers to change their behaviour to proactively consolidate their small pension pots. The Committee would expect to look closely at the recommendations about consolidating small pension pots which are expected to be made to the Department for Work and Pensions by an industry working group as they are developed and published. (Paragraph 111)

28. Pensions dashboards will change how people engage with their pension savings. Dashboards will also provide an important additional tool which can be used by those providing guidance or advice to savers. *We recommend that the Money and Pensions Service should develop a guidance service—possibly a future iteration of Pension Wise or the midlife MOT—which supports savers by using the data available through their pensions dashboards. It is important that these services are considered now, before dashboards are launched.* (Paragraph 112)

Supporting decision-making before accessing pension savings

29. The simpler annual pension statement will require schemes to show information to members in a consistent way across the industry. We welcome the simpler annual pension statement and believe it will be particularly beneficial to people with many pension pots. (Paragraph 115)

30. A pension statement season would be a short period each year when schemes were required to send savers annual pension statements. We are not convinced that the gains from a statement season will justify the complexity of introducing it. In our view, the measure is at best a stopgap until pension dashboards are available. *Given the likely cost and disruption to the industry, we recommend that the Government be prepared to adapt or drop its proposal for a pension statement season if the benefits cannot be robustly demonstrated.* (Paragraph 119)

31. The midlife MOT is free support for people in their 40s, 50s and 60s to make plans about work, wellbeing and money. We welcome the principle of a midlife MOT, but believe that the policy is not yet providing the support envisaged for most savers. For the "my money" part of the midlife MOT, we recommend that the Department for Work and Pensions, supported by the Money and Pensions Service, undertakes research to:

    a) Develop the most effective format(s) for midlife MOTs;

    b) Establish the most efficient delivery route for midlife MOTs; and

    c) Maximise the take up of the midlife MOT. (Paragraph 124)

Wider government policy

32. We support the Government's intention to make pensions simpler. Recent policy changes to the normal minimum pension age have highlighted the difficulties of achieving this and we are disappointed that these changes have made making decisions about accessing pensions even more difficult. Savers take a working lifetime to build up pension savings, through many changes of policy and government. *We urge the Government to do everything in its power to ensure that future changes do not bake additional complexity into the system for decades to come. Where additional complexity is inescapable, we recommend that any Government consults early, thoroughly and aims to achieve cross-party consensus.* (Paragraph 128)

33. The Government, regulators and the Money and Pensions Service are introducing multiple policy interventions to support the pension freedoms. Six years on there remains no framework against which to evaluate the success of the freedoms or make judgements about the need for—or effectiveness of—support interventions. Our predecessor Committees have asked three times for the Government to improve its monitoring and reporting on the progress of the pension freedoms. *We recommend that the Department for Work and Pensions and the Treasury jointly produce an annual assessment evaluating these measures holistically. We would expect several of the recommendations we have made in this report to appear in that publication,*

including: usage of Pension Wise and paid for advice, the progress of reviews and research being undertaken by regulators, the state of policy development by the Government, and the support available to individuals and schemes. (Paragraph 131)

Formal minutes

Wednesday 12 January 2022

Members present:

Rt Hon Stephen Timms, in the Chair

Shaun Bailey

Siobhan Baillie

Neil Coyle

Nigel Mills

Dr Ben Spencer

Chris Stephen

Sir Desmond Swayne

Draft Report (*Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 131 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 19 January at 9 am.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 16 June 2021

Chris Brooks, Head of Policy, Age UK; **Renny Biggins**, Head of Retirement, The Investing and Saving Alliance; **Laurie Edmans**, Commissioner, The Financial Inclusion Commission; **Dr Julia Mundy**, Member, Financial Services Consumer Panel Q1–17

Yvonne Braun, Director of Policy, Long Term Savings & Protection, Association of British Insurers; **Paul McBride**, COO of HSBC Retirement Services Limited (HRSL), The Society of Pension Professionals; **Joe Dabrowski**, Deputy Director of Policy, Pensions and Lifetime Savings Association; **Tess Page**, Chair of DC Committee, Association of Consulting Actuaries Q17–30

Wednesday 21 July 2021

Laura Myers, Partner and Head of DC, Lane, Clark & Peacock; **Matthew Arends**, Head of UK Retirement Policy, Aon; **Rachel Vahey**, Senior Technical Consultant, AJ Bell; **Stephen Lowe**, Group Communications Director, Just Group Q31–58

Peter Glancy, Head of Pensions Policy, Scottish Widows; **Philip Brown**, Director Policy and External Affairs at B&CE; **Colin Clarke**, Head of Product Policy Strategy for the Workplace DC Pensions business, Legal and General Q59–77

Wednesday 22 September 2021

David Fairs, Executive Director, The Pensions Regulator; **Sarah Pritchard**, Executive Director – Markets, The Financial Conduct Authority Q78–109

Alex Connolly, Chief Operating Officer, Money and Pensions Service; **Carolyn Jones**, Head of Money and Pensions Guidance Policy and Strategy, Money and Pensions Service; **Chris Curry**, Pension Dashboard Programme Team, Money and Pensions Service Q110–139

Monday 25 October 2021

The Baroness Altmann CBE; **Angela Gough**, Head of Corporate Pensions, Royal Mail; **David Pitt-Watson**, Leader Tomorrow's Investor Programme, Royal Society of Arts, and Visiting Fellow in Finance, Cambridge University; **Simon Eagle**, Senior Director, pensions actuary and GB Head of Collective Defined Contribution pensions, Willis Towers Watson, and Chair of the CDC working party, Institute and Faculty of Actuaries Q140–176

Monday 08 November 2021

Guy Opperman MP, Minister for Pensions and Financial Inclusion, Department for Work and Pensions; **Pete Searle**, Director, Private Pensions and Arm's-Length Bodies, Department for Work and Pensions; **John Glen MP**, Economic Secretary, HM Treasury; **Anna Harvey**, Deputy Director, Personal Finances and Funds, Financial Services Group, HM Treasury Q177–259

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

APS numbers are generated by the evidence processing system and so may not be complete.

1 AEA Technology Pensions Campaign (APS0007)

2 AJ Bell (APS0067)

3 AJ Bell (APS0050)

4 Aegon UK (APS0009)

5 Age UK (APS0062)

6 Aon (APS0066)

7 Aon (APS0038)

8 Association of British Insurers (APS0043)

9 Association of Consulting Actuaries (APS0029)

10 Aviva Plc (APS0010)

11 B&CE, provider of The People's Pension (APS0045)

12 BW SIPP LLP (a wholly-owned subsidiary of Barnett Waddingham LLP (APS0056)

13 Bloomfield Financial Consultancy (APS0058)

14 Bloomfield Financial Consultancy (APS0034)

15 Centre for Ageing Better (APS0012)

16 Centre on Household Assets and Savings Management (CHASM), University of Birmingham (APS0052)

17 Creative Benefits Group (APS0026)

18 Department for Work and Pensions (APS0035)

19 Dimitriadis, Sophia (Research Fellow, ILC UK) (APS0033)

20 Ferret Information Systems Ltd (APS0017)

21 Financial Conduct Authority (APS0061)

22 Financial Inclusion Commission (APS0018)

23 Financial Services Compensation Scheme (APS0047)

24 Financial Services Consumer Panel (APS0031)

25 First Actuarial LLP (APS0036)

26 Hargreaves Lansdown (APS0059)

27 Institute for Fiscal Studies (APS0022)

28 Just Group (APS0068)

29 Just Group (APS0049)

30 LCP (APS0027)

31 LEBC Group Limited (APS0028)

32 Lane, Clark & Peacock (APS0065)

33 Low Incomes Tax Reform Group (an initiative of the Chartered Institute of Taxation) (APS0004)
34 M&G PLC (APS0039)
35 Mackrory, Dave (APS0063)
36 Money Alive Limited (APS0069)
37 Money Alive Limited (APS0032)
38 NOW: Pensions (APS0053)
39 Name witheld (APS0005)
40 National Employment Savings Trust (APS0040)
41 Ormston, Mr Mark (Director, Retirement Line Ltd) (APS0021)
42 Overseas individuals Smith (Technical specialist, TPAS); and Smith (APS0001)
43 Pensions Management Institute (APS0030)
44 Pensions and Lifetime Savings Association (APS0055)
45 Personal Investment Management and Financial Advice Association (PIMFA) (APS0060)
46 Phoenix Group (APS0057)
47 Portafina Investment Management Limited (APS0006)
48 Prospect (APS0008)
49 Royal London (APS0016)
50 Royal Society for Arts (APS0024)
51 Scottish Widows (APS0037)
52 Smart Pension (APS0048)
53 St James's Place Wealth Management (APS0013)
54 Standard Life Aberdeen (APS0019)
55 The Institute and Faculty of Actuaries (IFoA) CDC Working Group (APS0070)
56 The Institute and Faculty of Actuaries (IFoA) CDC Working Group (APS0054)
57 The Investing and Saving Alliance (APS0011)
58 The Pensions Regulator (APS0044)
59 The Society of Pension Professionals (APS0014)
60 Transparency Task Force (APS0025)
61 Which? (APS0064)
62 XPS Pensions Group (APS0046)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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Number	Title	Reference
1st	DWP's preparations for changes in the world of work	HC 216
2nd	Disability employment gap	HC 189
3rd	Children in poverty: Measurement and targets	HC 188
4th	Pension stewardship and COP26	HC 238

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Number	Title	Reference
1st	DWP's response to the coronavirus outbreak	HC 178
2nd	The appointment of Dr Stephen Brien as the Chair of the Social Security Advisory Committee	HC 733
3rd	Universal Credit: the wait for a first payment	HC 204
4th	The temporary increase in Universal Credit and Working Tax Credit	HC 1193
5th	Protecting pension savers—five years on from the pension freedoms: Pension scams	HC 648
6th	The appointment of Sarah Smart as Chair of the Pensions Regulator	HC 1358